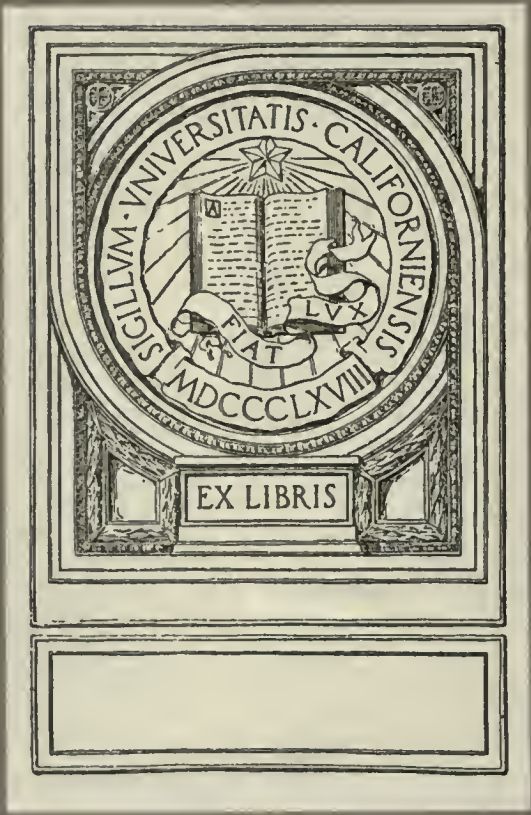


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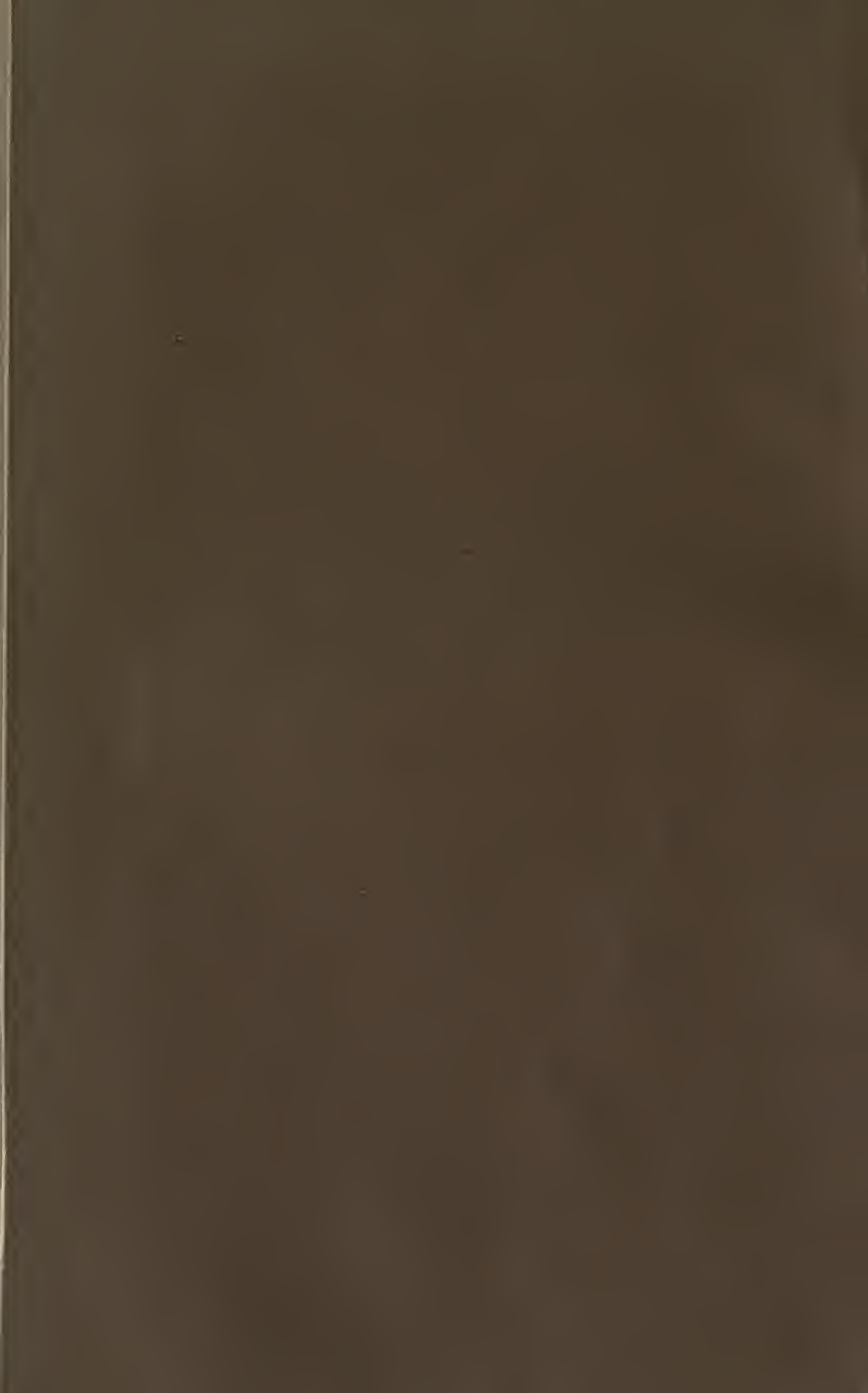
THE
RESTORATION
OF
AUSTRIA

AGREEMENTS

arranged by the League of Nations and signed at Geneva
on October 4th, 1922

with the

RELEVANT DOCUMENTS AND
PUBLIC STATEMENTS



[Distributed to the Council
and the Members of the League.]

GENEVA, October 19th, 1922.

LEAGUE OF NATIONS

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To VNU
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THE RESTORATION OF AUSTRIA

PREFACE.

ACTION TAKEN BY THE LEAGUE IN 1921.

The League of Nations was first asked to study the problem of the restoration of Austria in March 1921. After a conference in London in that month, the League was informed that the Governments of Great Britain, France, Italy, and Japan had decided to release, for a period of years to be determined later, their liens in respect of all claims against Austria, whether for relief credits, reparation obligations, or the costs of the armies of occupation. This decision was subject to the conditions that other interested Governments would agree to a similar postponement and that Austria was prepared to place the administration of assets in the hands of the League under the International Credits Scheme.

This scheme was then under the control of the Financial Committee of the League, which therefore at once met, and on April 4th, 1921, stated the main conditions on which it considered that the restoration of Austria could be achieved. Among these conditions were the early decision by the 13 other Governments holding liens upon Austria to agree to a similar postponement, a decision by all the 17 Governments that the postponement should be for a sufficiently long period, such as 20 years, and the willingness of Austria herself to undertake drastic internal reforms. At the same time, the Committee sent a delegation to Vienna, which studied the position on the spot from April 15th to May 10th, 1921, and recommended a far-reaching and detailed scheme, which was approved by the Council of the League and forwarded to the Supreme Council of the Allies on June 3rd, 1921. It was a cardinal feature of these recommendations that Austria could only be saved by a comprehensive scheme, including internal reform, sufficient credits, and a central control of these credits which would ensure that they were so used as to assist, and secure, the internal reform.

At the time when this scheme was framed, Austria's credit position (apart from the liens upon her assets) was relatively good, and had not been seriously impaired by fears as to her social and political stability. It was believed, and with reason, that, as soon as her assets were free, they would serve as a sufficient security for private credits without the need for Government guarantees¹.

The scheme was not put into operation, because the negotiations with the many Governments whose consent was necessary to the release of the liens encountered many difficulties and proved to be very protracted. It was not before July 1922 that a way appeared to be opening for a scheme based upon the use of Austria's assets.

In the meantime, by February 1922, Austria's needs had become imperative, and, unless assistance had been forthcoming, a collapse must have taken place in the early part of this year. In this crisis, Great Britain, France, Italy, and Czechoslovakia came to the rescue by providing for assistance from public funds. Great Britain advanced £2,250,000 (of which £250,000 was required for the repayment of an earlier debt), France made provision for the advance of 55 million francs, Italy made provision for the advance of 70 million lire, and Czechoslovakia arranged to supply 500 million Czech crowns. Of these sums, the British

¹ The full documents relating to this scheme have been published. ("Financial reconstruction of Austria". Report of the Financial Committee of the Council, with relevant papers.)

advance has been entirely expended, but considerable proportions of the French and Italian grants, and a smaller proportion of the Czechoslovak grant remain available (as will be seen below) to assist in the initial stages of the new scheme.

These advances were clearly distinguished from the earlier credits, the repayment of which was to be postponed for 20 years. Some of them (such as the British advance) were specifically to be repayable out of the first loans raised by Austria ; others (such as the Czechoslovak advance) were based upon certain assets specially released by the Reparations Commission for the purpose, with the stipulation that these securities would be incorporated into any securities upon which a League of Nations loan scheme might ultimately be based ; all remained as a pressing and inevitable charge upon Austria's immediate budgets.

THE APPEAL TO THE ALLIED POWERS AT THE LONDON CONFERENCE IN AUGUST 1922.

By these means, an actual collapse was arrested in the first six months of this year. But the advances served no further purpose. They were granted independently by the several Governments ; they were subject to no central control. They were, as was natural in the circumstances, consumed for current needs and were not the basis of any effective reform. Austria's financial disorganisation proceeded, and at an accelerated pace. The crown was, in August 1922, worth only $\frac{1}{10}$ of its value six months before, only about $\frac{1}{100}$ of its value a year before, and only $\frac{1}{15,000}$ of its gold value.

The Austrian Government made a desperate appeal to the Allied Powers, then meeting in London. The Austrian Minister stated that some of Austria's assets had at last been released to form securities for a loan, "but the foreign bankers who, a year ago, were still willing to grant such a loan, to-day declare that it is impossible to do so, because to them and to the general public the continued existence of Austria has become doubtful. The bankers consider the revenues offered by the Austrian Government a sufficient financial guarantee ; they demand, however, a second guarantee, which can only be given by the Chief Allied Powers." He stated that Austria was attempting to establish a Bank of Issue to which the right of issuing notes would be transferred from the Government, in order to arrest the depreciation of the crown, and that Austria was embarking on a programme of budget reform and economy. He added, however, that "everything depends upon whether, during the period required for the carrying through of the financial reforms, a foreign loan will give Austria the assurance that she will not have to resort to the printing press again in order to cover the requirements of the State, otherwise the financial reforms would be definitely doomed to failure. A further depreciation of the krone must necessarily render impossible the indispensable purchases of food-stuffs and coal from abroad and lead to such social upheavals as would constitute the gravest dangers for the peace of Central Europe and would mean the end of an independent Austria. Every day by which the assurance of the foreign credit is delayed renders it doubtful whether the measures which Austria is taking for her own salvation will then still be possible."

He therefore appealed for Government guarantees to assist in raising a loan of £ 15,000,000.

REPLY OF THE ALLIED POWERS.

This communication was considered by the Supreme Council, on behalf of which, Mr. Lloyd George, on August 15th, 1922, replied that "the representatives of the Allied Governments have, therefore, come to the decision that they are unable to hold out any hope of further financial assistance being given to Austria by their Governments. They have agreed, however, to a proposal that the Austrian situation should be referred to the League of Nations for investigation and report, the League being informed at the same time that, having regard to the heavy burdens already borne by the taxpayers of the Allied Powers, there is no prospect of further financial assistance to Austria from the Allied Powers, unless the League were able to propose such a programme of reconstruction, containing definite guarantees that further subscriptions would produce

substantial improvement and not be thrown away like those made in the past, as would induce financiers in our respective countries to come to the rescue of Austria. The representatives of the Allied Powers have reached the above decision with much reluctance and from no lack of sympathy with the Austrian people, but they have been obliged to take into consideration the crushing taxation which their respective countries already support in consequence of the war."

This correspondence was then forwarded to the League with the request that it should be placed on the agenda of the next session of the Council.

CONDITIONS UNDER WHICH THE PROBLEM WAS REFERRED TO THE LEAGUE.

The reply of the Allies to the Austrian Government was not such as to afford any relief to the anxieties for the immediate future. Its request to the League was only "for investigation and report", and it was coupled with the statement that the Allied Governments were unable themselves to hold out any prospect of further financial assistance, and that there was no hope, therefore, unless a scheme could be devised which would attract money from private sources. In this crisis, in the interval between the London Conference and the meeting of the Council of the League, Monsignor Seipel, the Austrian Chancellor, visited Prague, Berlin and Verona to discuss the situation of his country with the Governments of Czechoslovakia, Germany and Italy. It was clear to the world that the financial and economic disorganisation and the imminent dangers of social distress and disturbance had developed to a point at which they had created also a grave political problem. It was also clear that, in this political situation, it was more than ever hopeless to expect that private credits would be forthcoming on the basis of Austria's own assets. Her best securities, her revenues from the customs and the tobacco monopoly, however sufficient in normal circumstances, could not be relied upon in the event of serious social or political disturbances. No scheme was possible unless they could be supplemented by Governmental guarantees; and these guarantees, difficult in any event, would be more difficult unless something could be done to relieve the political tension.

THE LEAGUE'S METHODS OF WORK.

The Council was thus confronted with a complex problem, political as well as financial in its character. At its first meeting on August 31st, 1922, it at once instructed the Financial Committee to examine the financial aspects of the problem, while carefully reserving any decision as to whether it would undertake any responsibility for the problem and, if so, on what conditions. It then deferred further discussion on the subject till the following Wednesday, September 6th, 1922, partly to enable the Financial Committee to proceed with its work and partly to give time for Monsignor Seipel, who desired to present Austria's case in person, to join the Austrian Delegation at Geneva. On September 6th, he made his appeal¹ in a public meeting of the Council. He described Austria's distress and explained the need for a guarantee for a loan to help her through the period when she was achieving reform and release from some of the impediments to Austrian commerce. He added that Austria was ready to accept a system of control as a corollary to assistance, and expressed the opinion that, with such assistance, she could soon become economically self-sufficient. He concluded, however, with a grave warning that without such assistance the condition of Austria constituted a serious danger to the peace of the world, which it was the duty of the League of Nations to examine and avert.

It should be noted that the Austrian representative, in making this appeal, and in all subsequent meetings of the Council and its Committee, when dealing with the Austrian problem, was himself a member with full and equal rights in accordance with Article 4 of the Covenant, which provides that "any Member of the League not represented on the Council shall be invited to send a representative to sit as a member at any meeting of the Council during the

¹ See page 19.

consideration of matters specially affecting the interests of that Member of the League."

The Council next invited Czechoslovakia also (represented by its Prime Minister, Dr. Benes) to join the Council for this question, and formed a Committee (the Austrian Committee) entrusted with the direction of all further work upon it. The Committee consisted of five members of the Council so constituted, *viz*: Lord Balfour (Great Britain), who was asked to preside over the discussions, M. Hanotaux (France), the Marquis Imperiali (Italy), Dr. Benes (Czechoslovakia), and Monsignor Seipel (replaced, when he was absent, by Dr. Grünberger, the Austrian Minister for Foreign Affairs).

The composition of the Committee thus expressed the Council's sense of both the importance and the range of the question. It continued throughout to direct the work, meeting twelve times between the date of its appointment and the date of the signature of the Protocols on October 4th, 1922. It will be noted that the hitherto separate and independent negotiations were now transferred to a single committee which worked continuously and consisted of the representatives of all the Powers chiefly concerned, including the Prime Ministers of two of them.

The composition of this Committee, and the subsequent organisation of the work, afford a typical example of the methods of the League. The Committee used throughout the League's technical organisation. At once determining the general outline of the questions requiring solution, it divided them among the different expert committees at its disposal. Within the general outline, the Financial Committee gave its advice, which, in fact, as will be seen, included a comprehensive scheme of financial assistance and administrative reform. Working within the same general programme, the Economic Committee considered what immediate economic measures could usefully be recommended. At the same time, a Legal Committee, drawn partly from legal experts of the several Delegations and partly from the permanent staff of the League, advised on such legal questions as presented themselves in the course of the work. The Austrian Committee of the Council kept in its own hands the specifically political aspects of the problem, and maintained its control over the work of the above Committees by considering interim reports as they proceeded with their studies.

The Financial Committee¹ which was first consulted consisted of members who met, as did the members of the other Committees giving technical assistance to the Austrian Committee of the Council, not as representatives of the different Governments, but as experts invited by the League to give their best professional advice. The signature of their reports did not, therefore, in any way commit the Governments to accepting its recommendations. At the same time, the different members were naturally in a position to estimate, with some special knowledge, the probable policy and attitude of their respective countries. Their work was done at Geneva, during the period of the third session of the Assembly, for which Delegations of representatives of the countries concerned were present. The conditions were favourable for the working out of a scheme which should be both adequate in its provisions and not impossible of acceptance, and for an understanding by the Governments whose assistance was required of the reasons for which the precise scheme put before them was recommended.

THE FINANCIAL COMMITTEE'S REPORT.

The Financial Committee was first asked to consider, in consultation with the Austrian Representatives, what measures were required and were practicable to secure budget equilibrium; after what period, with these measures, the result desired should be obtained; and what deficit in terms of gold must be contemplated as inevitable during the intervening period.

The Committee replied that the main economies should be secured by the reform of State industrial enterprises and the reduction in the number of officials. It pointed out that State enterprises at present involved a loss of 170 million gold crowns a year (£7,800,000). The railways alone involved a loss of 124 millions

¹ The members of the Financial Committee who were present during these discussions were: M. JANSSEN (Chairman), M. ARAI, M. AVENOL, Sir Basil BLACKETT (replaced at later meetings by Mr. Fass), Dr. POSPISIL, Sir Henry STRAKOSCH, with the addition of M. Maggiorino FERRARIS and M. A. SARASIN, who were co-opted for the purpose.

(£5,700,000), largely because, while wages follow the cost-of-living index, the railway tariffs were only *one-fifth* of what they would be on that basis. The loss should cease within two years and, in view of the important transit trade, the railways should ultimately become a source of profit. With regard to officials, the Committee pointed out that Vienna, as the capital of a country of six millions, has more State employees than when she was capital of an Empire of over 50 millions. It considered that within two years a third of the expense, amounting to 130 million gold crowns (£6,000,000) ought to be saved. With these measures, the "normal budget" should be reduced to about 237 million gold crowns (£10,900,000). Simultaneously, the yield of taxation must be increased and within two years should reach 237 million gold crowns — and so balance the budget — and thereafter exceed it. In the two years, however, while this process of reducing expenditure and increasing revenue is incomplete, a total deficit of 520 million gold crowns (£24,000,000) is probable, or 650 million gold crowns (£30,000,000) including the sums required to repay the advances made this year and not covered by the postponement arranged for the credits given in earlier years.

The Committee was next asked what securities Austria could offer for private credits. It replied that, apart from the forests and salt monopolies (which were proposed as security for the new Bank of Issue), the proceeds of the Customs and the tobacco monopoly should be available as security for a loan, and, if necessary, the *impôt foncier* as well. The Customs and tobacco monopoly alone should, with the necessary administrative reforms, give an annual yield of 80 million gold crowns (£3,700,000), which exceeds the estimated cost of the interest and amortisation of even the maximum loan of 650 million gold crowns.

In the unanimous opinion of the Committee, therefore, the securities were ample for the credits required for the transition period, on the vital conditions that the reforms recommended are carried through and that external and internal order are assured.

With the main conditions of the financial problem thus established, the Committee, in answer to further questions from the Austrian Committee of the Council, proceeded to study in detail how the deficit for the two years could be met, and what form of control was required in the interests of the reforms and of the securities on which the loan was to be based. Its recommendations will be more conveniently summarised after some account has been given of the subsequent negotiations.

The Financial Committee, in presenting its report, pointed out that no financial scheme could in itself save Austria. "Behind the problem of financial and budget reform remains that of the fundamental economic position. Austria cannot permanently retain a sound financial position, even if she attains it for the time, and maintain her present population unless her production is so increased and adapted as to give her (with her "invisible exports") an equilibrium in her trade balance as well as her budget. This balance is at present seriously adverse, partly, but certainly not wholly, as a result of inflation and currency dislocation. All possible measures, whether by the amelioration of the international economic relations, the encouragement of the conditions which would increase Vienna's *entrepôt*, financial, and transit business, or of those which will attract further private capital towards the development of her productive resources, are therefore of the greatest importance. These are, however, outside the Financial Committee's province. If the appropriate financial policy is adopted and maintained, the Austrian economic position will adjust itself to an equilibrium, either by the increase of production and the transfer of large classes of its population to economic work, or economic pressure will compel the population to emigrate or reduce it to destitution. At the worst, this would be better than the wholesale chaos and impoverishment of the great mass of the town population which must result from the continuance of the present financial disorganisation, which affords no basis for such economic adaptation as is possible."

THE ECONOMIC COMMITTEE.

Simultaneously, the Economic Committee ¹ of the League considered whether it could make any immediate suggestions which would assist in this wider and longer task of the re-establishment of the trade balance. It recognised that the basis must be found in the financial scheme and that on this basis the economic position must be gradually built up. It therefore confined itself for the time to certain preliminary suggestions. First, recognising the objections at present maintained to the full application of the Porto Rosa recommendations, it advised the conclusion of conventions and bilateral agreements between Austria and each of the Succession States, based, as far as possible, on the Porto Rosa Protocol, but with such modifications as might be possible and advisable to introduce in order to adapt them to each special case. Secondly (while endorsing the advice of the Financial Committee as to State enterprises), the Economic Committee called attention to the need for reform by Austria of both her internal economic system and the conditions of her external trade.

LAST STAGES OF THE NEGOTIATIONS.

Meanwhile, the Austrian Committee of the Council had itself been discussing directly the terms of a political declaration designed to give confidence in the political and economic integrity and independence of Austria. The whole scheme was gradually developed, with the assent of the different delegates of the Governments, and on the last day of the Assembly (September 30th, 1922) the Council was able to report that, though its task was not fully accomplished, there was a good prospect of a complete scheme being signed with the assent of the Governments concerned within a few days.

This result was achieved on Wednesday, October 4th, 1922, when three protocols were signed, covering, with their annexes, which include the Financial Committee's report, the whole of the Council's scheme; and these signatures indicated the complete and unreserved assent to every part of the scheme of the Governments of Great Britain, France, Italy, Czechoslovakia and Austria.

The first of these protocols, signed by all the above Powers and open for the signature of all countries, contains a solemn declaration that the signatories will "respect the political independence, the territorial integrity, and the sovereignty of Austria; that they will seek no special or exclusive economic or financial advantage which would compromise that independence; and that, if the occasion arises, they will refer the matter to the Council of the League and comply with its decisions." Austria herself, in the same protocol, enters into corresponding obligations. Protocol No. II, with its annexes, states the conditions of the guarantee of the loan, the obligations of the guaranteeing Governments, and the powers and duties of the Committee composed of representatives of those Governments. It is signed by the four principal guaranteeing Governments and by Austria, and is open for signature (with suitable modifications as to the extent of their guarantee) by all other countries able and willing to participate in the financial scheme. Lastly, Protocol No. III sets out separately the obligations of Austria and the functions of the Commissioner-General, who is to collaborate with her in her programme of reform and its execution. From these protocols, taken together, emerges the League's general scheme.

SUMMARY OF THE SCHEME.

The basis of the scheme is the political integrity and economic independence of Austria and the Declaration (Protocol No. I) designed to ensure it. Aided by the confidence which it is hoped this Declaration will create, Austria is to commence a programme of reform (including economy in expenditure and increased revenue from taxation) which will ensure the balancing of her budget by the end of 1924. In the meantime, the excess of her expenditure over the revenue

¹ The Economic Committee constituted a special Sub-Committee for this purpose consisting of M. SERRUYS, M. DVORÁČEK, M. GUARNERI, M. HEER and Sir Hubert LLEWELLYN SMITH.

available from normal resources during these two years—estimated at a maximum of 650 million gold crowns—will be met by the proceeds of loans.

These loans will, for the reasons given above, be guaranteed by external Governments, in addition to being secured on assets which (if the reforms are successful and order and stability maintained) will be sufficient without application to the guarantors. The guarantees will take the form of a definite guarantee of a stated proportion of the interest and amortisation by each guaranteeing Power. The Governments of Great Britain, France, Italy and Czechoslovakia have each guaranteed 20 %, or 80 % in all, in addition to covering a certain portion of the risk of other guaranteeing Powers ¹.

Only 20 % ² remains, therefore, to be covered by guarantees from all other countries. Assuming that this remaining percentage is secured, the future subscriber to the loan will not only have the security of the assigned assets, but, if they fail, will have every fraction of his interest and amortisation further assured by the guarantee of a specified Government (80 % of the total by the four Governments named above). The guaranteeing Governments themselves will be subject to no cash liability so long as the assigned assets prove sufficient for the service of the loan.

With the prospect of resources from these loans, Austria will be relieved from the necessity of financing herself by the issue of paper money and so causing the precipitous fall of the crown, which renders all efforts at budget equilibrium futile and destroys any stable basis for the economic life of the country. The scheme therefore assumes, and regards as essential, the establishment of the proposed Bank of Issue under certain definite and specified conditions. The Austrian Government will surrender all right to issue paper money, and will not, except with special authorisation, negotiate or conclude loans.

Austria, therefore, in carrying through her reforms, is no longer building on the shifting basis of a continuously depreciating currency. Hitherto she has been in the unhappy position of knowing that she could not stop inflation until her budget balanced, and could not balance her budget while inflation continued. Now for the first time she has a prospect of having at her disposal the funds required to carry her over the necessary transition period.

But the successful accomplishment of the reform programme, on which both Austria's prosperity and the value of her assets depend, will necessarily be a difficult and painful task. The scheme therefore includes the appointment of a Commissioner-General, whose duty will be to ensure, in collaboration with the Austrian Government, that the programme of reforms is carried out and to supervise its execution. He will derive power from his control of the disposal of the loans.

"The Austrian Government agrees that it may not dispose of any funds derived from loans... except by authorisation of the Commissioner-General"; but the conditions which he may attach to his authorisation "shall have no other object than that of assuring the progressive realisation of the programme of reforms and of avoiding any deterioration of the assets assigned for the service of the loan."

The officer to be entrusted with this great responsibility is not the representative of the guaranteeing Powers. He is an officer of the League of Nations. He will be appointed by and responsible to the Council of the League, of which the Austrian representative is, when Austrian matters are discussed, a full and equal member. Indeed, the Council, in approving the scheme, added a resolution

¹ The Financial Committee raised its original estimate of the budget deficit of 520 million gold crowns to 650 millions in order to include the repayment of advances made this year by Great Britain, France, Italy and Czechoslovakia. It is necessary that all the guarantees should apply to the whole of this sum, in order that the loans — or, more correctly, the "loan", though it will, of course, be issued in instalments at different times as Austria's needs and market conditions may determine — may have the same character and be based on the same securities. In order, however, that any States not interested in the repayment of the advances may limit their liability to a guarantee of a proportion of the total sum required by Austria for her other needs (520 million gold crowns), Great Britain, France, Italy and Czechoslovakia have entered into a special arrangement by which they cover the risk of all other guaranteeing countries so far as it relates to the additional sum of 130 millions. The effect of this rather technical arrangement is that any country can undertake to guarantee a stated percentage of the loan with an effective responsibility which is limited to that percentage of a total of 520 million gold crowns, instead of 650 million gold crowns, while the maximum liability of the four principal guaranteeing Powers reaches a total of 84 % instead of 80 %.

² This, for the above reason, does not necessitate any effective liability on all Powers of more than 20 % on 520 millions (or 16 % on 650 millions).

that the Commissioner-General should not be drawn from any of the principal guaranteeing countries (nor from countries bordering upon Austria). His primary concern will be identical with that of the Austrian Government and the permanent interests of the Austrian people: namely, that the measures to enable Austria to achieve a position of self-supporting independence shall be successful; the due maintenance of the value of the securities of the loan will, of course, be a part, but a part only, of the general programme which it will be the duty of the Austrian Government to frame and execute, and his to supervise. The Commissioner-General will live at Vienna. He will report monthly to the Council of the League. His functions will end as soon as the Council judges that the financial stability of Austria is assured.

In addition to the League's Commissioner-General, there will be a "Committee of Control of the Guaranteeing Governments." This Committee, of which the Italian member will be President and the Czechoslovak member Vice-President, will be formed of the representatives of the guarantors with votes proportionate to the guarantees they have offered, and will watch their special interests. It will not be in permanent session, but will meet from time to time, not in Vienna but normally at the seat of the League. The approval of this Committee by a two-thirds majority is required to the main conditions under which the loan, whose interest and amortisation are guaranteed, is to be subscribed; and it will, by the same majority, determine the conditions of the payments should the guarantees actually be called upon. For other purposes, the Committee works normally by a majority vote. It receives the monthly reports presented by the Commissioner-General to the Council; it may ask him for information as to the progress of the reforms, and may make representations to him with regard to safeguarding the interests of the guarantors. If the assigned revenues are insufficient for the service of the loan, it may require the assignment of additional securities.

In exercising these rights, the Committee communicates not with the Austrian Government but with the Commissioner-General. The Committee and each guaranteeing State have a right of appeal to the Council *en cas d'abus*.

The rights and powers of both the Commissioner-General and the Committee are carefully defined so as to restrict them to the precise objects in which they are concerned — the execution of the reform programme and the maintenance of the value of the securities — and to avoid any infringement of the sovereignty of Austria and the full responsibility of her Government.

The essential features of the agreement arrived at are thus a programme of financial reform extending over two years; provision to meet the deficit during this period by guarantee loans; the arrest of the collapse of the crown; the supervision of the Austrian Government's execution of the scheme within carefully defined and restricted limits.

THE SPECIAL DIFFICULTIES AND TASKS OF THE NEXT FEW MONTHS.

It will be well to add to this general outline a note as to particular difficulties of the earlier stages. The Governments' promises of guarantees require ratification by the respective Parliaments, and loans can only be issued on the basis of — and, in practice, some time after — such ratifications. It is of great importance that the ratifications should be secured before December 31st of this year. As soon as they are secured, any deficit which may thereafter accrue between that time and the issue of a long-term loan can be met without great difficulty by the issue of Austrian Treasury Bills in gold crowns or foreign currencies, subject to right of redemption from the immediately prospective loan.

The period up to the end of this year presents special difficulties. It is estimated that, during it, there will be a deficit of 120 to 160 million gold crowns. The Financial Committee hopes that it may be possible to meet it by the issue of three- or six-months Treasury Bills (to be issued in Austria by the Austrian Government and purchased by the Austrian banks), secured partly by the unspent portion of the credits arranged by the French, Italian, and Czechoslovak Governments early in this year, and partly by a first charge on the Customs and on the tobacco monopoly.

During this same period, between now and the end of the year, it may be convenient to add that the following further action is required:

The Austrian Government should at once communicate certain immediately practicable reforms.

It must frame, in collaboration with the Commissioner-General, or, pending his appointment, with a delegation from the League, a programme of reform calculated to secure budget equilibrium by the end of 1924.

It must present to the Austrian Parliament a draft law giving, during two years, to any Government which may be in authority, full powers within the limits of the programme to take all measures to assure budget equilibrium by the end of 1924 without the necessity of securing further approval by Parliament.

The Bank of Issue should open; and the issue of notes by the Austrian Government should cease.

The Commissioner-General and the Committee of Control of the guaranteeing Powers should be appointed.

Additional promises of guarantees to complete the 100% should be obtained from other Governments than those which have at present signed the Protocol.

The promises of guarantees should receive parliamentary ratification.

This is the scheme now presented by the Council with a definite undertaking (subject to parliamentary ratification) of the Governments of Great Britain, France, Italy, and Czechoslovakia to guarantee between them (both as to interest and amortisation) over four-fifths of the necessary loan; and with the corresponding undertaking by the Austrian Government to take the measures and to submit to the control required by the scheme.

Other countries are invited to contribute towards completing the remaining portion of the guarantees — less than one-fifth — which still remains to be covered, and all countries are invited to sign the political declaration. (See Protocol No. I.)

The discussions and speeches which accompanied the preparation and the presentation of the scheme clearly express the Council's sense at once of the possibility and of the extreme difficulty of the task which still remains. The problem was given to the League at a moment when Austria was on the very verge of disaster, her financial disorganisation almost complete, her currency almost worthless, her social and political stability in obvious danger. From such a position recovery is not easy. When the scheme was presented at the public meeting of the Council on October 4th, it was thought well to quote with special emphasis the following grave statement of the Financial Committee:

"Austria has for three years been living largely upon public and private loans, which have voluntarily or involuntarily become gifts, upon private charity and upon losses of foreign speculators in the crown. Such resources cannot, in any event, continue and be so used. Austria has been consuming much more than she has produced. The large sums advanced, which should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption. Any new advances must be used for the purposes of reform; and within a short time Austria will only be able to consume as much as she produces. The period of reform itself, even if the new credits are forthcoming, will necessarily be a very painful one. The longer it is deferred the more painful it must be. At the best, the conditions of life in Austria must be worse next year, when she is painfully re-establishing her position, than last year, when she was devoting loans intended for that purpose to current consumption without reform.

"The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardship than she has known since 1919 (but with the prospect of real amelioration — thereafter the happier alternative), or collapsing into a chaos of destitution and starvation to which there is no modern analogy outside Russia.

"There is no hope for Austria unless she is prepared to endure and support an authority which must endorse reforms entailing harder conditions than those at present prevailing, knowing that in this way only can she avoid an even worse fate."

Complementary to this warning, and not inconsistent with it, is the confidence expressed by the Austrian Chancellor that if Austria can find the indispensable aid from outside, she can " become self-supporting sooner than is usually thought possible. Austria possesses agricultural resources which only require to be intensified ; she possesses old-established industries which have only been prevented by the war, and its consequences during the post-war period, from obtaining the capital required to work them ; she possesses the untapped resources of her water-power, which it has so far been impossible to exploit adequately. But her most precious possessions are her excellent geographical situation and, above all, her intelligent and industrious population. "

It is with these dangers and with these hopes that Austria, with the aid and support of the League and of the Governments which are assisting her, has to climb up " the precipitous but not impossible track " towards financial reform and self-supporting economic independence.

J. A. SALTER,

Director of the Economic and Financial Section.

October 5th, 1922.

II.

CORRESPONDENCE TRANSMITTED TO THE COUNCIL
OF THE LEAGUE BY THE BRITISH CABINET.

1.

LETTER FROM THE AUSTRIAN MINISTER IN LONDON
TO THE BRITISH PRIME MINISTER.

London, August 7th, 1922.

Mr. Prime Minister,

I have been instructed to address to you, as President of the Inter-Allied meeting, the following Note, and to beg you to bring it to the knowledge of the statesmen participating in the deliberations.

The Austrian Government is faced with momentous decisions.

During the last few days the Reparation Commission has at last released some of Austria's assets in order to render possible the taking up of a foreign loan. But the foreign bankers, who a year ago were still willing to grant such a loan, to-day declare that it is impossible to do so, because to them and to the general public the continued existence of Austria has become doubtful. The bankers consider the revenues offered by the Austrian Government a sufficient financial guarantee for the desired credit; they demand, however, in addition, a second guarantee which can only be given by the chief Allied Powers. For this reason the last resort of the Austrian Government is to appeal, through the enclosed memorandum, to the Powers and to address to them the urgent request that they should undertake a *partial* guarantee for the loan, for which such security is offered by the Austrian Government as is acknowledged by the financial experts to be adequate.

The experience of the last two years has shown that the Budget can only be balanced if the currency is stabilised simultaneously. For this reason, Austria is at the present moment, and out of her own resources, establishing a new Bank of Issue, for which the capital is supplied by Austrian banks. At the same time the revenue is, as far as possible, put on a gold basis; the expenditure, already reduced by the abolishing of subsidies for foodstuffs, is being further diminished by the sale — already effected or about to be effected — of unprofitable State concerns, by the reorganisation of the railway and postal services and by the reduction, at first by 10 %, of State officials. In order to cover for the next few months the deficit, which, as a result of the progressive depreciation of the krone, is rapidly increasing, an internal forced loan will be taken up. The Government and Parliament have decreed by law that the printing-press shall no longer be resorted to for the State and its requirements. Anyone knowing the situation will agree that this finance plan, already fixed by law, embodies the utmost exertions of which the present Austria is capable.

Everything depends upon whether, during the period required for the carrying through of the financial reforms, a foreign loan will give Austria the assurance that she will not have to resort to the printing-press again in order to cover the requirements of the State, otherwise the financial reforms would be definitely doomed to failure. A further depreciation of the krone must necessarily render impossible the indispensable purchases of foodstuffs and coal from abroad and lead to such social upheavals as would constitute the gravest dangers for the peace of Central Europe and would mean the end of an independent Austria. Every day by which the assurance of the foreign credit is delayed renders it doubtful whether the measures which Austria is taking for her own salvation will then still be possible.

For this reason the Austrian Government begs the Powers to decide at once whether they are prepared to assume a partial guarantee for the Austrian loan of 15 million pounds sterling.

If against all expectations this last hope were also to prove chimerical, the Austrian Government, knowing that to save the situation they had tried in vain all means which lay in their power and which constituted the utmost exertion of the people, would have to call together specially the Austrian Parliament and to declare, in agreement with it, that neither the present nor any other Government is in a position to continue the administration of the State. At the same time they would, before the Austrian people and the public opinion of the whole world, have to make the Entente Powers responsible for the collapse of one of the most ancient centres of civilisation in the heart of Europe, and would have to lay into their hands the future fate of Austria.

I have the honour to be,
with the highest consideration,
Mr. Prime Minister,
Your obedient servant,

(Signed) GEORG FRANCKENSTEIN.

2.

LETTER FROM MR. LLOYD GEORGE TO BARON
GEORG FRANCKENSTEIN, AUSTRIAN MINISTER IN LONDON.

London, August 15th, 1922.

Sir,

I have the honour to refer to your Notes dated August 7th and 13th, 1922, respectively, in which you asked me to bring to the notice of the Inter-Allied Conference a request by the Austrian Government that the Allied Powers should assume a partial guarantee for an Austrian loan, and to state that I brought the matter before the Conference, which considered it at a meeting held yesterday afternoon.

The representatives at the Conference of the Allied Governments gave the most careful attention to the request put forward, and in connection with it they reviewed the grants already made to Austria by their Governments. As you are aware, substantial financial assistance has been accorded by the Allied Governments to Austria since the war. The French Government has granted to Austria, sums of approximately £3,500,000, and in addition the French Parliament has voted this year the sum of 55,000,000 francs. The Italian Government has already granted Austria 280,000,000 lire, and the Italian Parliament has voted recently a further grant of 70,000,000 lire. The total contributions of Great Britain since the war amount to £12,500,000.

These substantial payments unfortunately appear to have produced no permanent improvement of the Austrian financial situation, which, on the contrary, has gone from bad to worse. The last credit by Great Britain, granted in the spring of this year, amounted to £2,000,000 and was given in the hope that it would definitely enable Austria to become solvent. The situation disclosed in your two Notes shows that this hope has not been realised.

The representatives of the Allied Governments have therefore come to the decision that they are unable to hold out any hope of further financial assistance being given to Austria by their Governments. They have agreed, however, to a proposal that the Austrian situation should be referred to the League of Nations for investigation and report, the League being informed at the same time that, having regard to the heavy burdens already borne by the taxpayers of the Allied Powers, there is no prospect of further financial assistance to Austria from the Allied Powers, unless the League were able to propose such a programme of reconstruction, containing definite guarantees that further subscriptions would produce substantial improvement and not be thrown away like those made in the past, as would induce financiers in our respective countries to come to the rescue of Austria. The representatives of the Allied Powers have reached the above decision with much reluctance and from no lack of sympathy with the Austrian people, but they have been obliged to take into consideration the crushing taxation which their respective countries already support in consequence of the war. They do not feel that they would be justified in calling upon

their heavily burdened nationals to assume further obligations for the benefit of Austria, which has, in the few years since the war, already received so much from them with such disappointing results.

I have the honour to be, Sir,

Your obedient Servant,
(Signed) D. LLOYD GEORGE.

3.

TELEGRAM FROM THE BRITISH CABINET
TO THE SECRETARY-GENERAL OF THE LEAGUE OF NATIONS.

London, August 25th, 1922.

Notes from and to Austrian Minister were sent to you for consideration of Council at next meeting. Question should therefore be added to agenda.

III.

MINUTES OF THE FIRST MEETING (PUBLIC)
OF THE TWENTY-SECOND SESSION
OF THE COUNCIL OF THE LEAGUE OF NATIONS

(Held at Geneva, August 31st, 1922, at 4 p.m.).

SPEECH BY M. DA GAMA, PRESIDENT OF THE COUNCIL.

Present : All the representatives of the Members of the Council, and the Secretary-General.

The representative of Austria was invited to take his seat at the Council table.

M. DA GAMA, representative of Brazil (President), submitted a proposal in the following terms in regard to the procedure to be followed in dealing with the question of Austria :

“ This problem is, as we all realise, at once of the gravest importance and the greatest urgency. The Council will doubtless, therefore, desire to arrange a procedure which will both admit of careful consideration of the problem now submitted to it and will also avoid any waste of time.

“ The Austrian problem has, of course, already been studied in detail by the Financial Committee, and the Council made definite recommendations as to the conditions on which it considered the Austrian finances could be put upon a stable and permanent foundation.

“ For reasons which I do not now need to recall, unhappily no effect was given to those recommendations, and the fundamental evils from which Austria was then suffering remain and in an aggravated form.

“ We have now been asked again to examine and report in even more difficult circumstances, and the Council will doubtless desire to consider very carefully whether it is in a position to assist in solving the problem in its present state, and, if so, upon what conditions. The problem has at the present moment many aspects, some of which are graver than when the Financial Committee last examined the question. One important element, in any case, however, in the question as now presented, is the financial position, with the changes which have occurred in the last eighteen months.

“ I suggest, therefore, that the Council should at once, this afternoon, instruct the Financial Committee again to examine the question so far as it falls within its competence, and report to the Council as soon as possible.

“ I suggest as to its terms of reference that the Committee should take the question as defined in the relevant portions of the letter written by the British Prime Minister on behalf of the Powers at the London Conference to the Austrian Minister, and should furnish a report on the financial aspects of this question as one element of the problem with which the Council is confronted.

“ I suggest, secondly, however, that without waiting for the completion of the work which will begin at once, but must necessarily take some little time, the Council should set aside a definite day, say Wednesday next, for hearing at length the exposition of the Austrian situation in all its aspects by the Austrian representatives, who are now with us.

“ The Council will, of course, throughout, conduct its discussions and arrive at its decisions in continuous consultation with the representatives of Austria. It is one of the fundamental principles of the Covenant that a country, though not formally a Member of the Council, becomes a Member with full and equal rights when questions especially affecting its interests are being discussed. ”

The procedure proposed by the President was approved.

IV.

MINUTES OF THE THIRD MEETING (PUBLIC)
OF THE TWENTY-SECOND SESSION
OF THE COUNCIL OF THE LEAGUE OF NATIONS

(Held on Wednesday, September 6th, 1922, at 4 p.m.).

SPEECH BY MGR. SEIPEL, CHANCELLOR OF THE AUSTRIAN REPUBLIC.

Present : All the representatives of the Members of the Council, and the Secretary-General.

Mgr. SEIPEL (Chancellor of the Austrian Republic) and M. GRÜNBERGER (Austrian Foreign Minister), representing the Austrian Republic, and M. BENÈS (Prime Minister of Czechoslovakia) were also present.

M. DA GAMA (President) stated that the Council had met in public session to consider the situation of Austria. This question had been referred to the Council by Mr. Lloyd George on behalf of the Allied Governments represented at the Conference of London.

The general conditions of the problem before the Council were well known. The Council had decided to invite the representatives of the Austrian Government and of the Czechoslovak Government to take part in its deliberations. He was glad to welcome Mgr. Seipel and M. Benès.

Mgr. Seipel and M. Benès came to the Council table.

Mgr. SEIPEL made the following statement to the Council :

“ It is with profound emotion that I come to-day before the Council of the League of Nations to plead my country's cause. At this solemn moment I cannot help recalling the time when we pacifists saw in the League of Nations a great but distant ideal. We Austrian pacifists assembled, with the best minds of other nations, around M. Henri Lammasch to strive for this idea with voice and pen. We did so because at that time latent conflicts were already ripe — conflicts which we saw with horror culminate in the world-war. It is true that during and after the war, scepticism appeared to prevail over idealism ; it is true that the idea of the League of Nations failed to prevent the war. This scepticism was confirmed even when the idea of the League of Nations was put into practice. Was not this League created by the very Treaties which, though they put an end to war, were far from bringing us a real peace ? Did not the League of Nations appear to be an instrument in the hands of the victors ? Yet within a short time, enemies of yesterday have been admitted to the League of Nations, Austria amongst the first. I appear therefore before you to-day to beg you to help my country, which is a Member of the League of Nations — I who have never lost faith in the reconciliation of peoples and in a new order higher than individual nationalism and including the whole world.

“ Objections may perhaps be raised that it is not for the League of Nations to procure credits for a State which is threatened with ruin. But Austria is not approaching the League of Nations to-day solely in order to ask for financial help. The League of Nations would certainly not be departing from its noble task by helping Austria — on the contrary. There is no more essential part of that work than the maintenance of the peace of the world. The fundamental idea of those far-sighted men who created the idea of the League of Nations was to dispel the difficulties which, but for its intervention, would threaten the world with an outbreak of war. If this is to be the work of the League of Nations, is not the League within its rights in preventing those disputes from arising ? Is it not better to prevent evils whose disastrous consequences it would be hard indeed to remove ? That is the case now with Austria.

"I need not describe to you what those disastrous consequences would be. Austria can no longer check the depreciation of her currency, which becomes more disquieting every day, and our people, who have endured such terrible suffering and who are perhaps even more crushed by fear for the uncertainty of their future than by the physical misfortunes of the present time, are menaced by actual decimation through hunger and cold. These disasters would not only endanger the maintenance of order within the heart of Europe ; they would involve the ruin of a territory which, although comparatively small, plays an important part in the commerce and productivity of the world. These disasters would also cut off the western peoples from direct communication with their important markets in the east ; the creditor States of Austria would certainly lose their money, whether reparations or interim credits granted after the war. But above all it would mean the disappearance of one of the most valuable and most ancient centres of civilisation in the world. It would, moreover, be a serious blow to the Treaties of Peace, for it would afford a proof that the new Austria which they created is incapable of existence, either now or in the future. A wide gap would be formed in the centre of the map of Europe, which, by force of attraction, would drag all its neighbours down into the same abyss, and would thus upset the balance which, apart from Austria, is even now only with difficulty maintained.

"The League of Nations has before it in the Austrian question one of the noblest of tasks ; if it succeeds, if its authority prevails — and we ask for nothing but to recognise that authority — if it is able to lead the Governments and peoples towards a real world-peace, the world will believe in it. In that case, the League of Nations, to which I have the honour to speak to-day, will be that League of Nations which has been the dream of men of good-will throughout the world.

"But, gentlemen, you may ask me why Austria considers herself authorised to speak to you thus. It is her distress which drives her to it, and in order to show you the extent of that distress, I will venture to put before you the following few figures :

100 Swiss francs were equal :

on July 1st, 1919, to	567 Austrian crowns
» 1920, to	2,702 »
» 1921, to	12,200 »
» 1922, to	360,000 »

"One Czechoslovak crown, the value of which had not as yet reached four Austrian crowns on July 1st, 1920, was equivalent to 10 Austrian crowns on July 1st, 1921, to 364 Austrian crowns on July 1st, 1922, and has at present reached a maximum of 3,000 Austrian crowns.

"All the Members of this Council, with this evidence before them will, I am sure, realise that such a depreciation, which is almost unique in the financial history of the world, must entail the most disastrous economic consequences for a country such as Austria, which has to import from neighbouring States, whose exchanges are so high, articles essential for everyday life. How are we in future to buy corn, coal, sugar, etc ?

"Two years ago we had to struggle against the dearth of goods which was then felt throughout the world. At that time the Powers, realising the painful situation of our country, granted us help by sending us food. Since then the situation has completely changed. The question of supplies is no longer a problem of goods ; it is now purely a financial problem. This situation must inevitably produce once more a scarcity of goods in our country. It is only because of the terrible depreciation of the Austrian crown that the population of Austria finds itself once more, in 1922, completely unable to procure the necessities of life.

"The price of bread in Austria was for a considerable time comparatively small owing to the State subsidies. But immediately these subsidies were brought to an end as a result of the financial situation of Austria, a large increase in price was, of course, inevitable. We could never have foreseen, however, that prices would double in a few weeks and would reach a gigantic figure. A loaf of bread, which only cost half an Austrian crown in time of peace, now costs 6,000 crowns. I need not dwell further on the disastrous consequences of such prices.

“A kilo of coal imported into Austria from the Czechoslovak Republic, which a year ago cost 8 crowns in Vienna, now costs 400 crowns ; and remember that this high price is not confined to food alone. A shirt, for example, which could be obtained in peace-time for 6 crowns, now costs nearly 200,000 crowns.

“These few examples will prove to you that no State in the world could exist under such conditions.

“But you will ask me this question : Has everything possible been done to cope with these misfortunes ? We have no wish to deny that the Powers, and the League of Nations in particular, have given careful study to the Austrian problem. In the spring of last year, indeed, the Financial Committee of the League of Nations prepared a complete financial plan which would have saved Austria. As you know, the fundamental basis of this financial programme was the suspension of liens on Austrian resources. It was laid down that the Austrian Government should take financial steps which would affect the whole economic life of the country simultaneously with the granting of the credits promised at that time.

“When the Austrian Government realised the difficulties which unexpectedly prevented the granting of these credits, it decided to take action by itself and to effect financial reforms within the country ; it increased taxation with all possible speed, with the object, and in the continual hope, that credits would be forthcoming.

“In spite of the international political difficulties which arose, the Government then decided to abolish the subsidies on foodstuffs, which weighed very heavily on the State exchequer ; and by abandoning the idea of acting only in conjunction with foreign help, it brought to the forefront the principle of saving Austria by her own means.

“At the same time the Government took all steps to call for an urgent suspension of liens. Seeing that all its efforts were unavailing, it finally decided to propose that the liens should be suspended in respect of certain sources of revenue which it considered essential for the establishment of a new Bank of Issue and for the minimum credits which it hoped to obtain from abroad. It finally secured the liberation of these sources of revenue a few weeks ago, after unforeseen delays.

“But a further disaster immediately arose. The keystone of the financial reforms based on the efforts of Austria alone was the Bank of Issue. This was to be created by the resources of the Austrian banking institutions, in order to prevent any further depreciation of the crown in the future.

“It was then that foreign capital threatened to compromise the financial plan which we had established with so much trouble. As you know, two of the largest Austrian banks, the Anglo-American Bank and the Bank of the Austrian States, were converted after the war into English and French institutions. But foreign capital, having taken an interest in the new Bank of Issue through these two institutions, confused our efforts to save Austria by her own means with the question of foreign credits, and obliged us to plead our cause before the Great Powers at the Conference of London. At the same time, when the Austrian problem was referred to the League of Nations, the directorates of the two banks in question demanded such important changes in the statute of the new Bank of Issue that the negotiations on this subject were still unfinished when I had to leave Vienna.

“The final decisions of Paris were still awaited, so that the success of our best efforts was compromised by the foreigner, whose good faith, nevertheless, I willingly recognise.

“But, gentlemen — I must ask the question — why have we received this treatment ? Very probably because, in spite of the most exhaustive enquiry, it has not yet been established clearly whether or not Austria to-day could live on her own resources. You would doubtless like to hear our own opinion on this subject. Allow me then, before answering you, to invite you to make a distinction which seems to me to be essential. The Austria of to-day, as constituted at the end of the war by the Peace Treaty, left to her fate — well, the latter Austria is unable to live and will be unable to live for some time to come. The distressing state of our economic life proves it. Torn suddenly from the union with our neighbouring countries, separated from all the territories which furnish them with raw materials, the Austrian people has been obliged to find, little by little, new economic foundations ; burdened with a heritage too heavy to bear, they are making great efforts to adapt themselves to a new state of things. If foreign help,

promised by the covering letter of the Treaty of St. Germain, fails them, and, if, as has been lately the case, the task is rendered more difficult — then, gentlemen, the new Austria will not be able to live, but if Austria finds the foreign help which is indispensable she will be able to live sooner than might be supposed. Austrian agriculture only needs to be intensified. Austria possesses a long-established industry which the war and its consequences have deprived, till now, of the necessary funds ; she possesses the latent wealth of her hydraulic forces, which it has not been possible sufficiently to exploit ; but her greatest wealth is her excellent geographical situation, and, above all, her gifted and industrious population. To recover from the terrible shocks of the revolution, she needs only a little mental peace and normal economic conditions. And allow me to lay stress upon one point in this line of thought which is particularly important. Austria must be saved from the artificial shackles imposed upon her traffic and commerce, shackles which neither the Brussels Conference nor the Porto Rosa decisions were able to break. Here not Austria alone but the whole of Central Europe is concerned.

“ What is Austria asking from the League of Nations ? The London Conference again referred the Austrian problem to the League of Nations, and we hope, we pray, that this time it was not with a view to further enquiries, which will cause a loss of precious time, but with a view to rapid decisions. In the opinion of the most competent financiers, the guarantees which we are able to offer after the suspension of the liens in question need the guarantee of all the Powers, or at least of several of them, in order to enable us to obtain sufficient credits :

(1) To arrest the rapid decline of our monetary system — a decline which makes any budgetary calculations both for the State and for individuals impossible and augments from day to day the cost of living ;

(2) To permit the State to exist during the period of transition until the strengthening measures already taken and still to be taken have become efficacious ;

(3) To permit some reduction of officials and to push on the development of her enterprises by means of the necessary funds ;

(4) To utilise in the future the resources already mentioned, by improving agriculture, setting industry upon its feet, exploiting the hydraulic forces, and to give to the population a foundation for a certain future.

“ We have been assured that the Powers which will participate by their guarantee in the work of the economic reconstruction of Austria and the representatives of international capital who will assist financially or with credits will continue to exercise a certain control over employment of the credits granted and over our general national economy. I will reply with all the frankness which our situation demands :

(1) We admit that such a control is inevitable and natural.

(2) It is understood that such a control will not affect the sovereignty of Austria ; for it would be harder and more humiliating for our people, whilst keeping a semblance of sovereignty, to lose their political liberty than once and for all to renounce their independence and become part of a great political entity, and so obtain a share of sovereignty in that of a great State.

(3) For this reason we earnestly desire that the control over the use of the credits should become effective without delay. There is no doubt that dependence, unless it really brings relief, is humiliating, but it would be unreasonable to refuse, simply for reasons of prestige, a remedy which would bring about a cure.

(4) We could not, of course, accept this control unless sufficient credits were granted at the same time. For nothing could justify the control of an independent State except the real help accorded to her.

“ Gentlemen, I took the liberty at the beginning of my speech of referring in a few words to a point which I should like to emphasise. The Austrian problem in its present phase is very largely a political problem. I explained to you the

financial situation, and I have now shown how difficult it is to separate financial from political consideration and how great is the influence which political considerations may have upon the practical possibilities and financial solutions.

“ The fact that the Austrian problem, that is, the problem of maintaining the independence of Austria, has become a fundamentally political question, suggested to me the idea some days ago of visiting some of our neighbours to consult them upon this problem. I did not wish to submit the question to the League of Nations without reaching an understanding with our neighbours. This visit had, however, I frankly admit, another object. The Austrian people, rather than perish in isolation, will do everything in their power to make a last effort to break the chains which are oppressing and strangling them.

“ It is for the League of Nations to see that this effort does not endanger the peace of the world or our relations with our neighbours.”

V.

RESOLUTION ADOPTED BY THE COUNCIL OF THE LEAGUE
ON SEPTEMBER 6TH, 1922
[TWENTY-SECOND SESSION, FOURTH MEETING (PRIVATE).]

The Council decided to nominate a Committee instructed to examine the Austrian problem as it had been referred to the Council by the Inter-Allied Conference of London and as it had just been submitted to it by the Austrian Chancellor.

The Committee would comprise representatives of the British, Czechoslovak, French, Italian and Austrian Governments. It would be authorised, if necessary, to hear the representatives of other countries which might be interested in certain aspects of the question ; further, the Council put at its disposal the whole of the technical organisations of the League, including economic, financial and legal experts.

NOTE.

In the interval between September 6th and 30th, the Austrian Committee of the Council, the Financial and Economic Committees and, in general, the technical organisations of the League, worked out, in detail, the scheme ultimately embodied in the Protocols (see Preface).

VI.

EXTRACT

FROM THE RECORDS OF THE TWENTY-FIFTH PLENARY
MEETING OF THE THIRD ASSEMBLY

(Saturday, September 30th, 1922, at 3 p.m.)

President: M. EDWARDS.

COMMUNICATION BY THE COUNCIL.

THE PRESIDENT :

[Translation.]

Gentlemen, as you know, the Council has been studying during the last few days the question of Austria.

The Council has informed me that it wishes to make a communication to the Assembly on this subject through its Rapporteur, the Right Honourable the Earl of Balfour, after which the Austrian delegate will be requested to speak.

I have no doubt that the Assembly will wish to hear these communications. (Assent.)

If this is agreed to, I will first of all call upon the Right Honourable Lord Balfour, Rapporteur, to address the Assembly. (Applause.)

Lord BALFOUR (Great Britain) :

Ladies and gentlemen, the President has asked me, before we all scatter to every quarter of the globe not to meet again in this hall probably for another year, to give you such information as is in my power with regard to the work which has been done in connection with the great Austrian problem.

I regret, ladies and gentlemen, not to be able to do what, at one moment, I had hoped to do, which is to give an account of a completed transaction, of a matter in which all had already been done by the Council of the League to arrange the machinery and to make the necessary provision for dealing with the Austrian crisis. Though I am not in a position to give you that completed statement, my colleagues on the Council and I myself feel that so much has been done, so great has been the progress we have already made, and so important have been the stages which we have already passed, that it would have been doing you and us an injustice if I did not take this opportunity of letting you know the broad outlines at least of the task which we are in process, I believe, of accomplishing and the measure of agreement at which we have already arrived.

Now, ladies and gentlemen, let me say that, though a complete and detailed agreement has not yet been reached, nevertheless the spirit of agreement which has reigned over all our deliberations in the Austrian committee of the Council and in the Council itself, offer, so far as I can judge, the happiest augury for a final and successful issue of our labours.

This is not the first effort which the League has made at the invitation of the Powers to give material and effective assistance to Austria. I think that it was in 1921 that the first of these efforts was made. We then laid before the world our scheme for aiding the Austrian Government to aid itself. An essential part of that scheme was the liberation of the liens which bound certain debts in such a manner that they could not be effectively used for Austria's reconstruction.

Those liens had to be released by a very large number of nations, and when a very large number of nations are concerned, separately and individually, in any transaction, the length of time which is apt to be taken may well be fatal to the best-laid schemes. In this case it was fatal, and by the time the last of these liens had been released, the economic condition of Austria had so sunk that no mere release of liens, nor even the other assistance given by the Great Powers, was sufficient by itself to raise Austria again to the position of a solvent State.

We therefore, when we were a second time invited to intervene, found the task was one inevitably harder, inevitably more complicated, inevitably requiring a novelty of treatment which was not either foreseen or indeed required when we first came into touch with this problem. We have to deal with a nation in which the currency has undergone the most rapid and the most disastrous depreciation, a nation in which production is falling far behind consumption, in which the deficit is great and is growing, in which there are vast numbers of government employees whom it would be difficult to prove were required for the service of the State and in which even what were before the war the most productive sources of revenue are now not merely no longer sources of revenue but sources of serious deficit.

It will be admitted that the problem, therefore, which we have to face is one of very great difficulty. Two things are plain. Austria cannot get on without some pecuniary assistance from other nations, or, let me say, without some assistance from sources outside herself. Austria cannot get on without such assistance, and yet such assistance can never be given her, and never will be given her, as long as she is in the hopeless condition of national bankruptcy with which she is now faced.

This problem was the one that presented itself to the Council and to the Austrian Committee of the Council. We felt that there could be no loans to Austria without the reform of Austria, while at the same time there could be no reform of Austria without loans to Austria. Austria could not recover left to herself by her own efforts, and yet who was going to help her? Who was going to lend her money unless there was clear proof that she was herself going to put an end to the state of things which had brought her to her present unhappy condition?

No loans without reform; no reform without loans. Those were the two principles which we had to consider and which we had, if possible, to reconcile.

Let me take those two questions in order. Let me take, first, loans and then reforms. Do not suppose that the difficulty of loans is the difficulty of finding what would ordinarily be called a good security for those loans. A well-governed Austria has ample security for loans; there is no difficulty about that at all. You may ask, then, "Why cannot Austria go, like other nations in need of money, into the open market and ask the great financial centres of the world to lend her financial resources on the securities which she can produce?" The reason is the one I have already indicated. No-one will lend to Austria unless Austria can produce not only what are called good securities for the loan but some clear prospect that the State will be henceforth governed on those sound financial principles on which alone the permanent stability of the State depends, a stability without which no wise lender is going to risk his money.

If it is clear that the private lender will not come forward in the existing condition of Austria and lend money simply upon Austrian securities, what is the remedy? There is but one remedy, and that is that other nations should supply the guarantees, furnishing that basis of credit which Austria herself is incapable of supplying. On that the Council and the Austrian Committee of the Council are entirely agreed. Moreover, in the most important respects, I think you will admit that we have found a method of carrying out that object.

Four nations have each agreed that, speaking very broadly, they will take twenty per cent each of the total loan required to enable Austria to pay her way during the two years which our financial advisers tell us must elapse before an equilibrium is arrived at in the Austrian Budget. I do not propose to trouble you with the figures to-day, for I am only dealing with the broad outlines of our policy, but we may say roughly that something over 500,000,000 gold crowns is what Austria, according to the calculation of our experts, needs, in order that she may be put on a sound basis. However that may be, and without going into details, broadly speaking, the four nations are in agreement that each shall supply twenty per cent of the total.

The four together, again speaking only in round numbers, may be expected to guarantee eighty per cent of the total requirements of Austria. That leaves twenty per cent undealt with. I am glad to say that we know already that some other nations are prepared to contribute towards that twenty per cent, and I have great hopes that the whole of the twenty per cent may be fully guaranteed when the nations which have money to lend, or are able to guarantee, see the whole scope and value of the plan which we propose. I think that gives you a fair general idea of the loan side of the plan on which we are engaged — the method by which money shall be supplied by the individual lender on the security of various States to meet the needs of the Austrian Government.

I now come to the second — the most important, and in many respects the most novel — part of the plan that we are carrying into effect. The second part, you will remember, dealt with Austrian reforms. That the reforms are required no Austrian and no observer of Austrian affairs is likely for one moment to deny. Large sums have been contributed to Austria from outside during the last two disastrous years, but they have, under the existing system, no more than sufficed to enable the Austrian Government to get on somehow or another from day to day. They do not contain in themselves the smallest element of permanence ; they are unable in the slightest degree to contribute to the permanent establishment of Austrian credit.

Now what are the conditions which, in our view, are required for this scheme of reform ? In the first place, we are of opinion that, since it is inevitable that there shall be some external influence acting in co-operation with the Austrian Government, it shall be made quite clear, first to the Austrian people and then to the world at large, that no interested motive presides over the action of any of the guaranteeing Powers, and that we are all mutually engaged one to the other, to the League of Nations and in the face of the world at large, that no interference with Austrian sovereignty, no interference with Austrian economic or financial independence, shall be regarded as tolerable or possible under the new system. We have therefore prepared a very carefully drawn protocol, which contains this declaration on the part of the great guaranteeing Powers — I hope other Powers will also sign it, but in the first instance on the part of the great guaranteeing Powers — that they have no selfish ends to pursue in connection with this great effort at reform. That is the first step. (*Applause*).

And let me say in that connection that, valuable as I regard this protocol, which will be, I trust, signed in a few days, I attach even more value to the fact that it will be signed, and that all the negotiations up to its signature will be carried out, under the auspices of this League. That is the great guarantee against separate interests being allowed to prevail over international interests. (*Loud applause.*)

I think every Austrian citizen may rest assured that, while undoubtedly there must be, under the guidance of the League and through the machinery which is going to be provided, a control exercised over the financial policy of Austria that can only end in benefit to his country, and that when at the end of two years Austria finds herself again a solvent nation, she will be so without having lost one shadow or tittle of any of that sovereignty or that supremacy over her own affairs which we all desire, and, indeed, are bound, as Members of the League of Nations, to preserve. (*Applause.*)

The control, therefore, which will be exercised over Austrian policy is a control entirely for the benefit of Austria. Of course it is necessary, absolutely necessary, if you are to get money from the independent, individual investor. At present, any prudent investor looking at the state of Austrian finances, seeing how far the expenditure exceeds the receipts, seeing that in every direction public money is being lavished and from how few sources adequate public money is coming in, will say at once : “ You may talk to me of securities, but unless the State to which I lend manages its financial affairs better than the Austria of to-day, I should be a fool if I did lend.” I believe that to be a system under which the control, working as it must work if it is to work successfully in daily harmony and co-operation with the Austrian administration, will be able to carry out the necessary reforms, not without difficulty, not, indeed, without suffering, not, perhaps, without for a brief period augmenting the distress which already prevails in Austria, but yet in no long time, after no unnecessary interval, bearing fruit of incomparable value in the direction of turning Austria again into a self-respecting, solvent, economically sound community, capable of holding up its head among all the nations of the world.

Therefore, ladies and gentlemen, control is necessary. How do we ensure control ? We ensure control, the kind of control and the only kind of control which is legitimate but the control which is necessary, by another protocol most carefully drawn up by which the Austrian Government and Parliament and people will pledge themselves to be partners with us in this great effort at national rehabilitation.

That is, perhaps, as important as any other work on which we have been engaged ; and we have been assisted in that work, I am glad to think, by the Chancellor of Austria himself, who has taken part in the deliberations of the Sub-Committee, whose advice has always been at our disposal, and who has

shown himself throughout most clearly appreciative of all the difficulties and all the needs of the country of which he is the head.

Therefore I think you will see that the broad scheme, which I hope will be brought to a technical conclusion in a very few days, consists in the main of providing this guaranteed loan, of seeing that it is properly expended in Austria, and, in co-operation with the Austrian Government, of ensuring that it shall only be expended in Austria if, accompanying their expenditure, those great reforms are carried into effect which, painful as they may be, are absolutely necessary if Austria is ever to recover.

I hope I have made quite clear the broad outlines of our plan, because it is only the broad outlines with which I have dealt. But do not suppose that there is the least desire or intention of keeping back from the League or from the public, to whatever nation they may belong, all the details and all the data on which our conclusions have been based. When we are in a position to feel that we have accomplished our task, as I have already told you (and I hope we may begin in a very few days), there will be a public seance of the Council, and at that public seance all the documents and all the provisions will be made public and the whole world will be taken into our confidence.

In the meanwhile I trust that what I have said may be regarded by most of my hearers as giving a sufficient outline — and it is not more than an outline — of the policy we are pursuing and the grounds on which we are pursuing it. No greater object has ever been presented to the League. In my opinion this is the fateful moment for the Austrian Republic. If this scheme goes through, as I believe it will, there is no reason why Austria should not recover herself; there is every reason why she should recover herself, and then there will be removed from the map of Europe what is now a blot upon it; there will be removed from the world of commerce and finance what is now a burden rather than an assistance to the economic well-being of the world, and we shall have restored to self-respect and ultimately — I hope to full prosperity — a country which is one of ourselves, and with whom all of us must sympathise.

But if, on the other hand, which I do not think will happen, either by the fault of Austria or by an unhappy accident, this effort of the League of Nations should fail, great will be the failure not merely for the League but for the world at large.

We cannot tolerate in our midst these derelict States, an unhappiness to themselves, a danger to their neighbours, and a burden upon the industry of the world. If, as I firmly believe, we are successful in bringing this great work to an issue, the benefits which we shall confer upon others will not be confined to the limits of the Austrian Republic; they will spread far and wide over the whole of Europe, and, through Europe, over the world; and we shall have done something really important, really material, and really lasting to remove from ourselves the charge that we are unable to deal with the economic difficulties of the world, and to remove from the world the heavy burden which those difficulties are now inflicting upon it. (*Loud applause.*)

M. MENSENDORFF-POUILLY-DIETRICHSTEIN (Austria):

[*Translation.*]

Ladies and gentlemen, you have just heard from the lips of the man best qualified to speak on the subject an accurate description of the present state of the question of granting financial aid to Austria and of the proposed financial reforms. I ask your permission to add a few words on behalf of the Austrian Government to express our deep and sincere gratitude to the League of Nations and especially to the Members of the Council for having undertaken this task, which, we sincerely trust, will be brought to a successful conclusion and will give our country the prospect of a less anxious and less gloomy future than could be anticipated before the League of Nations undertook the responsibility of this task.

We cannot, however, conceal from ourselves the fact that it will not be possible for all the difficulties to be surmounted nor for the anxious problems which pre-occupy our Government to be entirely solved. I confess that I had sincerely hoped — no doubt like many of the Members of this Assembly — that the end of this session of the Assembly would coincide with the signature of an arrangement which, without limiting the independence of Austria, would guarantee her financial reconstruction; such an arrangement, accepted and signed here by the representatives of all the nations which were affording us their friendly assistance,

would have borne witness to the fact that the League of Nations had itself taken in hand this great reform which was to be carried out under its auspices.

It has proved impossible to complete this arrangement before the end of the Assembly; but the Council remains in session, and we have every reason to hope that it will take cognisance of the agreement which will settle the questions under consideration as a whole and not piecemeal. The manner in which this task has been accomplished by the eminent statesmen on the Council, who have devoted long hours to the study of our financial reform, is our best and surest guarantee that this important and difficult undertaking will be crowned with success.

Our Government wishes to express here and now its deep gratitude to the countries which have already stated that they would give their guarantee for part of the loan; and the Federal Chancellor, Mgr. Seipel, particularly wishes to thank most heartily and sincerely the statesmen representing these Powers, who have displayed a tireless zeal and an unwearying patience in the study of this serious problem, and who have been able to overcome all the difficulties which stood in the way of solution.

The Austrian Committee of the Council has had the good fortune to have the Earl of Balfour as its chairman. I need not tell you here how valuable his co-operation has been to us; his authority and his talent have never shone with greater effect, and I should like to say personally, as one who has had the advantage, during many years, of hearing a large number of his most famous political speeches in the House of Commons, that I have never felt a warmer or a more sincere admiration for him than during these last meetings of the Committee in the offices of the Secretariat. (*Loud applause*).

Although the closing of the session and the departure of the Members of the Assembly make it impossible for a final agreement to be placed before you to-day, we confidently expect that this agreement will be concluded and submitted to the Council in a very short time — as Lord Balfour has already stated.

In addition to the four Powers which have already guaranteed four-fifths of the loan, a few other countries have promised their assistance, which will be welcome. I will only mention one of them: Belgium, to whom we wish to express our sincere gratitude for having undertaken to guarantee a portion of the loan.

We hope that this example will be followed, and that the sympathy which has so often been shown to us here will also be expressed in the form of participation in the guarantee of that relatively small part of the loan which is not yet covered by the guarantee of the four Great Powers to which I have referred.

As this is the Assembly's last meeting, I do not wish to detain your attention longer, but I cannot conclude without repeating, on behalf of the Austrian Federal Chancellor, that, when once the agreement is concluded, Austria will lose no time in putting into force all the measures which on her side she has undertaken. She will do this with energy and determination and will not allow herself to be discouraged by criticisms, but will carry out without delay the task which falls to her share. (*Loud and prolonged applause*.)

THE PRESIDENT:

[*Translation*.]

Although Lord Balfour's announcement is not open for discussion, I believe Lord Robert Cecil has expressed the desire to put a question.

If the Assembly has no objection, I will therefore call upon Lord Robert Cecil to speak. (*Applause*.)

LORD ROBERT CECIL (South Africa):

Mr. President and gentlemen, I am sure the Assembly is profoundly grateful to the Council for all its efforts in this matter and to Lord Balfour for his efforts and for his admirable statement this afternoon. We all hope, and we have a right to hope, from his statement, that this great work is going to be successfully accomplished. We welcomed particularly his statement that as soon as a result was reached there would be a full exposure of all the facts and documents. The only question that I venture to put to him is this: that if, contrary to all our expectations and hopes, success were not reached, can the Assembly understand that, nevertheless, there would be a full statement and exposure of all the negotiations leading up to that unhappy result?

LORD BALFOUR (Great Britain):

I do not anticipate, any more than Lord Robert Cecil does, the unhappy catastrophe to which he made distant allusion. I cannot bring myself to believe

that our efforts will end in failure. Nevertheless, he has put to me a direct question. He has asked me whether in this very improbable event there will still be a Council held in public in the course of which all the documents and all the facts will be made public.

I can assure him that that will be the case. There will be a public meeting of the Council, and nothing that we have to reveal will remain concealed.

The PRESIDENT :

[*Translation.*]

M. Léon Bourgeois will address the Assembly.

M. LÉON BOURGEOIS (France) :

[*Translation.*]

Gentlemen, I thought that this meeting would be devoted solely to Lord Balfour's declaration and that no discussion, nor even any questions, would follow after the masterly statement of the case which has been presented in so complete and detailed a manner by the first British Representative.

But since a question has been asked, I should like in turn to express very simply and in a few words my desire — which must be the desire of all of us — that to-day's meeting should not terminate upon a note of doubt or uncertainty, but that, on the contrary, it should end on a note of confidence and faith. (*Loud and unanimous applause.*)

The task to which the Council of the League of Nations has put its hand was undertaken with such full recognition of all its duties and obligations, in such entire agreement with the Austrian Government, and with such an earnest conviction that its proposals were fully adequate to meet the present needs and the sincere and unconditional desires of the Austrian Government, that success cannot fail to crown an enterprise undertaken in such a spirit.

I may add that this undertaking is in conformity with the spirit of the whole League of Nations and with the methods employed in other matters discussed in this session of the Assembly.

During those historic discussions on the question of disarmament (in which — I hasten to remind you — we had the assistance of Lord Robert Cecil himself), and in our discussions on the possibility of an intervention by the League of Nations in Eastern affairs, we have laid down principles, established methods and indicated lines of conduct which will henceforth constitute precedents for the regular procedure of the League of Nations. Those are the principles which have been applied by the Council of the League and by Lord Balfour, its distinguished Rapporteur, on this subject; and they have been applied with a strictness and conscientiousness which could not be exceeded.

I therefore end my speech as I began it : Let us terminate this session with a demonstration of confidence and faith. (*Loud and prolonged applause.*)

VII.

RESOLUTION ADOPTED BY THE COUNCIL OF THE LEAGUE
ON OCTOBER 4th, 1922, AT THE
TWENTY-SECOND SESSION, SEVENTH MEETING (PRIVATE).

The Council received from the President of the Conference of the Principal Allied Powers, held in London on August 15th, 1922, a request to study the situation in Austria.

The Council invited the Austrian and Czechoslovak Governments to sit on the Council. A Committee, composed of delegates of Great Britain, France, Italy, Austria and Czechoslovakia, was asked to prepare the resolutions to be submitted to the Council. These proposals have just been received by the Council.

In accordance with these proposals, the Council approves, with the addition of the provisions mentioned below, the scheme submitted — Protocols No. I, II with annexes, and III.

It agrees to accept the duties and responsibilities involved by the proposals, and recommends that every State desiring to assist in the reconstruction of Austria by taking part in the execution of the scheme should adhere to Protocols Nos. I and II.

The Council invites the Austrian Committee to continue to watch over any developments in the situation, in order that it may be in a position to present a report whenever such a step is considered necessary.

The Committee is asked to nominate without delay the Commissioner-General mentioned in Protocols Nos. II and III; this nomination shall be ratified by the Council. It is understood that this Commissioner-General should not belong to one of the four Principal Powers taking part in the loan, or to one of the countries adjoining Austria.

The Council, on the proposal of the Guarantor States, which have signed Protocol No. II, decides that the presidency of the Committee of Control of the Guarantor States shall, as long as the system of control ¹ defined in Protocols Nos. II and III remains in force, be filled by the Italian member of the Committee, and the vice-presidency by the Czechoslovak member of the Committee.

The French text of the Protocols and annexes shall be the authentic text.

¹ It is understood that the period of control in question does not refer to the special control envisaged in paragraph 4 (last line) of Protocol No. III.

VIII.

MINUTES OF THE EIGHTH MEETING (PUBLIC)
OF THE TWENTY-SECOND SESSION
OF THE COUNCIL OF THE LEAGUE OF NATIONS

(Held on Wednesday, October 4th, 1922, at 4.30 p.m.).

Present : All the representatives of the Members of the Council, Dr. POSPISIL (Representative of Czechoslovakia), Mgr. SEIPEL and M. GRÜNBERGER (Representatives of Austria), and the Secretary-General.

Lord BALFOUR (British Empire) said "I was commissioned to give a general outline of the scheme we are adopting to deal with the Austrian problem, when I spoke to the Assembly on Saturday last. Those who were present will remember that I had to admit that the scheme was not then completed in all its details, but that a very large measure of agreement had been arrived at. Though the prospect certainly gave great hope that we should come to such a successful arrangement, that arrangement had not then been reached. I now rejoice to tell you that the consummation then doubtfully looked for has now been reached, and, whether representing the interests of Guaranteeing Powers or representing the League of Nations through its Council, we are all agreed, and all the details are now finally settled.

"Before I attempt again to indicate the character of that arrangement, I feel bound to offer my sincere thanks to two groups of people to whose untiring energy, patience and tact this happy result is largely due. The first of these is the Italian Delegation. Some of the difficulties to which I alluded on Saturday at the Assembly were due to points over which there were temporary differences of opinion of a very difficult and very technical character which had not been completely settled with the Italian Government. If we have reached, as we have reached, a complete and satisfactory arrangement of these subjects, we owe it largely to the work of the Marquis Imperiali and his colleagues, who have been untiring in their efforts to make perfectly clear the lines of thought which we at Geneva were desirous of pursuing, and who have rendered, I venture to say, services which cannot be over-rated with regard to the final agreement which has been so happily reached.

"The other group of persons to whom I should like to pay a tribute is the Secretariat of the League of Nations which, at all events, knows the kind of work which a crisis like this throws upon it. When you have got to carry on these complicated transactions in two languages largely by telegrams which arrive at all hours of the night, when you have got to prepare all the papers for the frequent meetings which have to be called before these things are finally decided, only those who know the amount of labour constantly thrown upon them by such an occasion as this are in a position to say how great is the debt of gratitude which all owe to the untiring labours which the Secretariat has undertaken.

"I say nothing—for I think I hinted at it before—of what we owe to the Financial and Economic Committee, without whose advice and without whose help we never could have done the work which we now have accomplished. But all that you will be able to judge, for the reports which they have made—documents of great ability carried out by the experts of many countries—will stand as a monument to what such investigations should be, and without their aid the Sub-Committee of the Council, on whose shoulder the responsibility of all this work has mainly rested, could never have carried out the functions entrusted to them.

"You will remember that we were asked by the Supreme Council to undertake a solution of a problem to which they, for one reason or another, felt themselves unequal, and which they thought—and I hope not incorrectly—might perhaps be solved by the machinery of the League of Nations. What was that problem? Generally speaking, we all know it was the economic condition of Austria, but

I think that if I venture to read an extract from the report of the Financial Committee you will have an idea more authoritative and more precisely expressed in words than I could possibly give to you in any abstract of my own. The Financial Committee expresses itself as follows :

“‘Austria has for three years been living largely upon public¹ and private loans, which have voluntarily or involuntarily become gifts, upon private charity and upon losses of foreign speculators in the crown. Such resources cannot, in any event, continue and be so used. Austria has been consuming much more than she has produced. The large sums advanced, which should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption. Any new advances must be used for the purpose of reform, and within a short time Austria will only be able to consume as much as she produces. The period of reform itself, even if the new credits are forthcoming, will necessarily be a very painful one. The longer it is deferred the more painful it must be. At the best, the conditions of life in Austria must be worse next year, when she is painfully re-establishing her position, than last year, when she was devoting loans intended for that purpose to current consumption without reform.

“‘The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardship than she has known since 1919 (but with the prospect of real amelioration — thereafter the happier alternative), or collapsing into a chaos of destitution and starvation to which there is no modern analogy outside Russia.

“‘There is no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms entailing harder conditions than those at present prevailing, knowing that in this way only can she avoid an even worse fate.’

“No words could more clearly, more forcibly, or, I would say, more tragically express the realities of the tremendous problem with which the League of Nations was called upon to deal, and you will observe that it requires every possible sacrifice from two parties. In the first place it requires a great effort on the part of the Austrian Government itself ; but the Austrian Government, whatever its good intentions, whatever its resolution, whatever its courage, would be absolutely helpless unless other nations are prepared to come forward and use their credit to enable Austria herself, by her own efforts, with this assistance, to extricate herself from the appalling position which the extract I have just read reveals to you in such expressive words.

“As I said on Saturday, there are two things which have to be done. Austria must reform herself. Other nations must provide credit in order that Austria can reform herself, and the difficulty, the essential difficulty of the whole thing is this : How are you going to arrange a system under which people will be prepared to lend their money to Austria in the position which I have just described? How are you going to get Austria, unless you lend her money, to start upon the precipitous but not wholly impossible track which we are expecting her to climb over these mountains of economic difficulty? Many of our problems have necessarily been concerned with arranging for the system of credits, of guarantees to be given, in order to enable Austria to draw upon the private lender throughout the world. They are complicated, they are difficult. You will perhaps be content when I say that all these essential details are contained in a three formal protocols¹ which will be signed to-day, that those protocols will be in the hands of the public. The Guaranteeing Powers, as you know, are, in the first place, the large guarantors, France, Italy, Czechoslovakia and Great Britain. They are going to guarantee, roughly speaking, four-fifths of the sum required. Outside the limits of those four Powers, we know we are going to get some support from other nations, though we do not yet know the limits of that support, but I have every hope that the fifth, or what is approximately the fifth, of the whole sum required will be obtained from these additional sources of supply.

“Now, that being the general aspect of the question looked at from the point of view of those who are providing the guarantees for the money, let me describe the subject from the point of view of Austria and of the League of Nations. How is the expenditure of this money to be regulated? You have just heard from

¹ See pages 39 to 47.

the extract I read from the report of the Financial Committee that much of the money which many nations have given to assist Austria has really had no effect except that of temporarily postponing the evil day of national ruin and bankruptcy. How are we going to see that the loans which we are prepared to guarantee receive a better fate? The machinery consists of three parts. I mention them not in their order of importance, because they are all vitally important. The first I would mention is the Committee of Guaranteeing Powers. We have felt that the nations which supply these guarantees must have some say in the broader questions of finance which the subject necessarily involves, and we have provided a scheme by which the guaranteeing nations shall constitute a committee of control, which shall be kept carefully informed of all that is going on, and which shall, on certain broad aspects of the problem of raising the money, be able to give its opinion and to see that no injury is done to the lender.

"I turn from the lender to the Power to which the money is to be lent and to the position which the League of Nations is going to occupy in seeing that that money is spent for the reform and rehabilitation of Austria itself. That task throws a great responsibility upon the Austrian Government. The Austrian Government is fully conscious of all the weight of that responsibility. It knows well that it, more than anybody else, will, in the near future, be master of its own fate. The last thing that we desire to do is to interfere in the slightest degree with Austrian independence or Austrian sovereignty, and we have indeed formally entered into an arrangement amongst ourselves — amongst the guaranteeing nations, to which I hope many other nations will subscribe — we have entered into a solemn arrangement which will be laid before you in one of the three protocols which will be signed to-day. We have arranged that none of us is to extract any separate advantage or interfere in the smallest degree with the series of elaborate transactions which I am endeavouring to describe. Austria evidently must, on her side, enter into effective pledges to carry out the reforms which are absolutely necessary. Those reforms are going to be no easy task. It will not be a smooth path that the Austrian Government will have to pursue in the immediate future, though it is one at the end of which every success is likely to be reached. The Austrian Government owes it to the League of Nations, it owes it to the Guaranteeing Powers, to give effective assurances that, so far as it is concerned, it will carry out these reforms, however difficult they may seem in the immediate future, and will thus gain not only prosperity for itself but earn the confidence of those who collaborate with it.

"Now I am not going to describe at length the pledges Austria has given, or the policy she has promised to pursue, but I will read one paragraph from the third protocol, which indicates in the clearest manner its tenor and importance :

"The Austrian Government will forthwith lay before the Austrian Parliament a draft law giving, during two years, to any Government which may then be in power, full authority to take all measures, within the limits of this programme, which, in its opinion, may be necessary to assure at the end of the period mentioned the re-establishment of budgetary equilibrium without there being any necessity to seek further approval by Parliament."

"You will observe how far-reaching that promise is, for it gives the Austrian Government once and for all, during the two years, not only the right but the power to see that the series of reforms necessary again to make Austria a solvent and economically sound community are carried out. That indicates the part which Austria is going to play in this great drama.

"Now let me say what the League of Nations is going to do.

"The duty of the League of Nations will be to appoint a High Commissioner who shall, in conjunction with the Austrian Government, in constant intercourse with it, be responsible to the League of Nations, and who will work for the general policy of economic reform, on which the future of Austria depends. The conclusion of the Financial Committee is that in two years, if these reforms are carried out, the Budget of the Austrian Government will be in equilibrium. I have just described to you how difficult the task is, but that task will surely be capable of accomplishment if the High Commissioner appointed by the League, with all the authority of the Powers, and, above all, with the disinterestedness which that position involves, is able, by constant intercourse with the Austrian authorities, to insist that this programme of reform shall be effectively accomplished. That gives you, in very rough outline, the great lines of a scheme which surely is not lacking in true statesmanship. It may fail, some

part of its machinery may break down, but I hope for better things. I am confident that no scheme more likely to succeed could have been evolved. If you had asked me two or three weeks ago whether I thought any scheme so well apportioned, so well suited to carry out its purpose, or expressing in the circuit of one coherent plan both the lending Powers of the world, the administrative powers of the League of Nations, and the method of bringing those two into full and close harmonious co-operation with the Government of Austria — if someone had said can you devise such a scheme, I should have expressed the gravest doubts. But the work has been accomplished. I do not think, whatever the result may be, that the League of Nations need be ashamed of the work it has done ; but, after all, it is not of the League that I am thinking so much as of the future of Austria. We all have in view her rehabilitation, and I am certain that if the Austrian people and Government will throw themselves wholeheartedly into the work of carrying out this important, difficult, but necessary reform, the result will be that Austria, who has been a Member of the League for only a few days more than a year, will feel that she has looked to her sister nations, and has looked to them not in vain. I feel certain that she will on her side carry out the noble though not easy task which we are throwing upon her and that she will take the full advantage of all the liberality of the Guaranteeing Nations, of all the administrative capacity we can place at her disposal, and of all those instruments of rehabilitation which together will place her among her sister nations, in a position of prosperity, of solvency and of self-respect, and enable her to become again a great factor in European civilisation."

M. HANOTAUX (France) said : " I was authorised by the Government of the French Republic to adhere, on its behalf, to the draft Convention submitted to the Council by its Sub-Committee. In complete agreement with the British, Italian and Czechoslovak Governments, and with the other Governments which joined in guaranteeing the international loan for the reconstruction of Austria, the French Government adheres to the whole scheme on which this guarantee has been based, and rejoices in the success of the work which, on its initiative, has been entrusted to the League of Nations.

" In spite of the heavy burdens which France has to bear, she has no intention of avoiding any of her obligations in the cause of European solidarity. She hastens to offer her assistance to a country the historical past of which has been so intimately linked with her own, in order to allow that country to escape from its present embarrassments, and by its own effort, and in full independence, to enjoy a happier future.

" Above all, it is the wish of France to help towards the maintenance in Central Europe of stability and peace. This is her chief aim here, as everywhere ; and whenever peace is threatened by any danger, France will work to remove that danger. In the midst of a new Europe, based upon the Treaties of Peace, France will always assist in enabling the nations to enjoy that tranquillity which is their sole desire. The League of Nations is an organisation specially devoted by its founders to the realisation of this unanimous desire, and the Government of the French Republic, which has from the first seen in the League a triumph for the victory of justice, has given the League its full confidence and its most sincere co-operation in the carrying out of its mission.

" The French Government rejoices particularly in the spirit of harmony and conciliation which has prevailed throughout the difficult negotiations which to-day have come to an end. Of all the work accomplished by the League of Nations, this is perhaps the most important, since it is based upon the deepest sentiments of humanity and will have the greatest effect on history.

" I have received authority from my Government to adhere to and to sign the Convention. It only remained for me to thank all those who have helped the Austrian Sub-Committee : technical experts, secretaries and all the staff whose work has been so intensive during the whole period."

The Marquis IMPERIALI (Italy) said : " I am particularly glad to be able to state, on behalf of the Italian Government, that Italy adheres to the agreement now before the Council.

" The situation of Austria is extremely serious, and she could not have been saved without the generous efforts of all the countries which are most concerned not only with the future prosperity of Austria but also with that of Europe and of the whole world.

"It was inevitable that my country should feel keenly the sacrifices attendant upon this effort in view of her heavy financial responsibility, Italy being one of the countries which has suffered most severely from the war.

"Italy, however, attaches so great an importance to the independence and vitality of Austria that she has thought it her duty to accept this fresh sacrifice.

"The whole world must be struck by this example of Christian solidarity between nations which, after being divided by the passions of war, are to-day affording one another a cordial and brotherly assistance.

"I wish to thank my colleagues most sincerely for having waited three days in order to announce the result of our work. The brief delay involved has not been without its uses. The modifications in the scheme which I requested on behalf of my Government have been accepted in a fine spirit of conciliation, and have helped to make more harmonious the collaboration between the Governments concerned and the organisation set up by the League of Nations. This is a great guarantee of the success of the scheme, and experience will afford additional proofs of its utility.

"No outside assistance can be efficacious without an heroic effort on the part of the Austrian people themselves. In this effort, the Italian Government and the Italian people give their full sympathy to Austria. It will also be necessary in the future to strengthen the financial measures contemplated by a series of economic provisions for the re-establishment of the normal life of the country.

"The reconstruction of Austria is the first problem of world importance which the League of Nations has been called upon to solve. I hope that the assistance thus given, which fully respects the national dignity and sovereignty of Austria, may be a happy augury for the future of the League, of which Austria is a Member, with the same rights and the same duties as the other Members.

"In my long career, I have had the honour of signing many international Acts, some of which have been of great importance. I wish to state that, in putting my signature to this agreement in my capacity as representative of the Government of the King of Italy, I am thoroughly conscious of serving the cause of peace and of co-operating in the great work for the reconstruction of Austria."

Dr. POSPISIL (Czechoslovakia) said : "M. Benès has requested me to express his deep regret at his inability to assist personally in the last stages of the work of the Austrian Committee of the Council, and, in particular, at his absence at the meeting which marks the completion of the work.

"The Czechoslovak Government has followed with the greatest interest the Committee's efforts to reach a solution of the Austrian problem, and it accepts that solution with the greatest satisfaction, since, in the view of my Government, the solution is in harmony with the principles which have inspired the policy of my Government since the foundation of the Republic, with regard both to the general problem of European reconstruction and, in particular, to the financial reconstruction of Austria.

"The principles which have guided Czechoslovak policy in these problems can be summed up in the idea of 'moral disarmament' which has dominated the discussions, during the third Assembly, on the question of disarmament.

"Czechoslovakia holds that the League of Nations is the only body which can carry out a work of this nature and importance, involving the collaboration of a great number of Governments, of the Austrian people and of the Austrian Government, which, thanks to the methods employed, will retain its full sovereignty.

"I hope that the unanimous spirit of solidarity and good-will which has guided the Austrian Committee will be maintained during the period of execution, and will allow of success in the difficult work which remains to be done.

"The Czechoslovak Government is convinced that the Austrian Government, which has itself taken part with so much ability in the work of the Committee and also the Austrian people as a whole, will co-operate in the most loyal and devoted fashion in the general effort."

M. ADATCI (Japan), having been invited by the President to speak, recalled the fact that the Japanese Delegation had for many weeks followed with the greatest interest the developments in the important question of Austria. Japan was a distant country, and was herself at the moment undergoing a serious

economic and financial crisis. But public opinion in Japan had followed, and was continuing to follow, this question with anxiety and interest. He was thus certain that he would relieve the anxieties of his Government and of the public opinion of his country by letting his Government know by telegram of the happy conclusion of this work, which was necessary not only for the reconstruction of Europe but also for the peace of the whole world.

For these reasons, he was glad to be able to express, on behalf of his Government, the most complete satisfaction at the result of the Council's work.

M. QUIÑONES DE LEÓN (Spain) stated that Spain viewed with greatest sympathy the work of the League of Nations for the reconstruction of Austria, and was considering the possibility of herself co-operating in the execution of the work. For reasons outside his control, he had only been able to inform his Government of the scheme at a date too recent to allow of a decision being taken before the meeting of the Council.

The well-known sympathy of Spain for Austria rendered needless any insistence on the value of the scheme now before the Council. He had not failed, however to point out to his Government its great importance and its practical utility for the reconstruction of Austria.

M. HYMANS (Belgium) associated himself with the views expressed by all the other Members of the Council. The League of Nations had just accomplished a great work, and he wished it every success. As the Council was aware, the Belgian Government, despite the heavy burdens which it had to bear, had decided, in a spirit of international co-operation, to join in the work and to offer its own guarantee within the limits of its capacity.

M. TANG TSAI-FOU (China) adhered entirely to the arrangement submitted to the Council for the reconstruction of Austria. He was not yet aware whether his Government would be able to take an effective part in the financial side of the question, but he was empowered to assure the Council of the moral support of his Government, since his country fully sympathised with the cause of the people of Austria. He could therefore state that China fully associated herself with the noble work which the League of Nations had just undertaken.

Mgr. SEIPEL (Austria) said : " On September 6th I appeared before you, the Council of the League of Nations, in order to lay before you the anxieties, doubts and needs of Austria. Anxiety compelled me to emphasise the doubts which filled the minds of many of our people, when the London Conference, finding that it was unable itself to afford the guarantees for the economic reconstruction of Austria, again referred our cause to the League of Nations.

" The League of Nations took a great step forward when you, gentlemen, appointed the Austrian Committee, of which, besides Austria herself, only such Powers were members as were prepared from the outset not only to help us, but also to admit all other States to a share in their activities, and who, moreover, were not inspired by the ambition to act entirely on their own authority, but, preferring to act under the direction of the League of Nations, thereby ensured success.

" The Austrian Committee needed time for its work. It needed more time than the anxious impatience of the Austrians, who feared for the existence of their country, were prepared to allow ; the time expended was, however, short in the opinion of those who, taking an active part in the negotiations, came to learn the number and magnitude of the difficulties to be surmounted. When, on this occasion, we appeared before the League of Nations, we were firmly resolved not to go away until the relief work for Austria was organised, either by the League or, failing that, without its help. Thank God we can say to-day : The League of Nations has not failed us ; the great idea lives — the idea that a Supreme Court exists, composed of members of the nations themselves ; a court which, when a people is in such dire need that it cannot help itself, will effectually call upon the others to help, and which will perhaps by so doing unostentatiously relieve the world of burdens laid upon it by the sins of the past. Yes, this great idea lives.

" The success on which the League of Nations can congratulate itself to-day is due to the untiring perseverance with which all those to whom it has entrusted the task have worked for the Austrian cause. It was a great pleasure to me to be present at some of the meetings of the Council and to have an opportunity of witnessing the zeal of its Members and the efficiency of its methods. To watch the Austrian Committee at work under the chairmanship of Lord Balfour

roused my highest admiration as a public man, and the results it has achieved fill my Austrian heart with gratitude. I wish to express the profound gratitude of my country to all the eminent men who, in the Council or at the Assembly, in the Austrian Committee and in the Secretariat and the various permanent committees of the League of Nations, have worked for the solution of the problem we have submitted to them. I earnestly hope, for their sakes and ours, that the scheme they have worked out in the course of these weeks will soon become a living reality and an established fact.

“It is mainly for we Austrians to make this work of the League live. We beg you to believe that we are prepared for action. In accordance with the institutions of a democratic State, I shall, on my return, have to give an account of every word I have said, every promise I have made, every obligation I have undertaken. There will probably be a few weeks of sharp opposition. If you hear anything of the kind, do not be surprised, do not draw wrong conclusions.

“The scheme for the economic reconstruction of Austria, which has been drawn up by the League of Nations and the Austrian representatives in closest collaboration, imposes solemn responsibilities on all parties, including the League, the States called upon to furnish a special financial guarantee, and on Austria herself. In approving this scheme, I am fully aware of the great and heavy demands I shall have to make upon my Government, the Austrian Parliament and upon all classes of the Austrian people. But I am not deterred by doubts ; and I beg you, too, gentlemen, to lay aside all doubts ; Austria will not fail to make every sacrifice she considers necessary. For even if a Government should lack the courage to carry out unreservedly all the obligations we have undertaken here, the Parliament will be stronger, and will, in case of need, appoint another and a better Government, since it will assuredly not undertake the responsibility of rejecting the promise of salvation now held out to Austria by the League of Nations — and behind the Parliament stands the whole Austrian people. This people demands to live, it claims to fill its appointed place in the great family of peoples, and will therefore not shun the sacrifices without which no assistance, however willingly given, is of any avail.

“How we shall rejoice, gentlemen, when, in a few years' time, an Austrian chancellor can again appear before the League of Nations or its Council and say : ‘Austria is rehabilitated, her economic administration is sound, her people are living, if not in affluence, at least not in crushing poverty; Austria has proved that she can manage her own affairs. You may now set her free from financial control.’

“That will be a glorious day for Austria, and not less glorious for the League of Nations.”

The PRESIDENT wished, before declaring the session at an end, to express his profound satisfaction that the current session of the Council had closed in such a striking act of international solidarity. This satisfaction was all the greater when compared with the general apprehension which existed only a few days ago, and with the spirit of discouragement which existed in Austria itself. The Council rejoiced at the solution which had been obtained and wished Austria the return of that prosperity which was due to her after her long and painful period of distress.

IX.

PROTOCOL No. I.

[Translation.]

DECLARATION.

THE GOVERNMENT OF HIS BRITANNIC MAJESTY, THE GOVERNMENT OF THE FRENCH REPUBLIC, THE GOVERNMENT OF HIS MAJESTY THE KING OF ITALY, AND THE GOVERNMENT OF THE CZECHOSLOVAK REPUBLIC,

Of the one part,

At the moment of undertaking to assist Austria in her work of economic and financial reconstruction,

Acting solely in the interests of Austria and of the general peace, and in accordance with the obligations which they assumed when they agreed to become Members of the League of Nations,

Solemnly declare :

That they will respect the political independence, the territorial integrity and the sovereignty of Austria ;

That they will not seek to obtain any special or exclusive economic or financial advantage calculated directly or indirectly to compromise that independence ;

That they will abstain from any act which might be contrary to the spirit of the conventions which will be drawn up in common with a view to effecting the economic and financial reconstruction of Austria, or which might prejudicially affect the guarantees demanded by the Powers for the protection of the interests of the creditors and of the guarantor States ;

And that, with a view to ensuring the respect of these principles by all nations, they will, should occasion arise, appeal, in accordance with the regulations contained in the Covenant of the League of Nations, either individually or collectively, to the Council of the League, in order that the latter may consider what measures should be taken, and that they will conform to the decisions of the said Council ;

THE GOVERNMENT OF THE FEDERAL REPUBLIC OF AUSTRIA,

Of the other part,

Undertakes, in accordance with the terms of Article 88 of the Treaty of St. Germain, not to alienate its independence ; it will abstain from any negotiations or from any economic or financial engagement calculated directly or indirectly to compromise this independence.

This undertaking shall not prevent Austria from maintaining, subject to the provisions of the Treaty of St. Germain, her freedom in the matter of customs tariffs and commercial or financial agreements, and, in general, in all matters relating to her economic regime or her commercial relations, provided always that she shall not violate her economic independence by granting to any State a special regime or exclusive advantages calculated to threaten this independence.

The present protocol shall remain open for signature by all the States which desire to adhere to it.

In witness whereof the undersigned, duly authorised for this purpose, have signed the present Declaration (Protocol I).

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations and shall be registered by it without delay, on the fourth day of October, one thousand nine hundred and twenty-two.

(Signed) BALFOUR.

(Signed) SEIPEL.

G. HANOTAUX.

IMPERIALI.

{ KRČMÁŘ.

{ POSPISIL.

PROTOCOL No. II.

[Translation.]

With the object of assisting Austria in the work of her economic and financial restoration, the BRITISH, FRENCH, ITALIAN, CZECHOSLOVAK and AUSTRIAN GOVERNMENTS have by common consent drawn up the following provisions :

Article 1.

The *Austrian Government* may create, under the guarantee resulting from the present Convention, the amount of securities necessary to yield an effective sum equivalent to not more than 650 millions of gold crowns. The capital and interest of the securities so issued shall be free from all taxes, dues or charges for the benefit of the Austrian State.

Article 2.

The expenses of issue, of negotiation and of delivery, shall be added to the capital of the loan as fixed under the preceding article.

Article 3.

The service of the interest and amortisation of the loan shall be assured by means of an annuity provided by the revenues assigned as security for this loan in accordance with the provisions contained in Protocol No. III.

Article 4.

The yield of the loan may not be employed except under the authority of the Commissioner-General appointed by the Council of the League of Nations and in accordance with the obligations contracted by the Austrian Government and set out in Protocol No. III.

Article 5.

The *British, French, Italian and Czechoslovak Governments*, without prejudice to action by other Governments which may accede to the present Convention, undertake to ask without delay from their Parliaments authority to guarantee (subject always to the approval by the Austrian Parliament of Protocol No. III, and to the voting by that Parliament of the law contemplated in Article 3 of the said Protocol) the service of the annuity of this loan, up to a maximum of 84 per cent., to be shared under special arrangements between the parties concerned.

Article 6.

Each of the four Governments shall have power to appoint a representative on the Committee of Control, the functions of which are determined by the provisions set out below. Each such representative shall have twenty votes. Those Governments which may agree to guarantee the remainder of the annuity which is not covered by the guarantee of the British, French, Italian and Czechoslovak Governments, shall in like manner have power either to appoint one representative each, or to agree among themselves to appoint common representatives. Each representative shall have one vote for every 1 % guaranteed by his Government.

Article 7.

The method of application of the guarantee, the conditions of the loan, the issue price, the rate of interest, the amortisation, the expenses of issue, of negotiation and of delivery, shall be submitted for the approval of the Committee of Control constituted by the guarantor States. The amount of the annuity necessary for the service of interest and amortisation of the loan shall likewise be approved by the Committee of Control. Every loan proposed by the Austrian Government, and not falling within the conditions of the programme contemplated in Protocol No. III, shall first be submitted for the approval of the Committee of Control.

Article 8.

The Committee of Control shall determine the conditions under which the advances by the Governments should be effected in the event of the guarantee coming into operation, and the method of repaying such advances.

Article 9.

Within the limits fixed by the contracts under which they are issued, the Austrian Government shall have the right to effect conversion of the loans with the consent of the Committee of Control ; it shall be obliged to exercise this power on the request of the Committee of Control.

Article 10.

The Committee of Control shall have the right to require the production of periodical statements and accounts and any other information urgently needed in regard to the administration of the revenues assigned as security ; it may bring to the attention of the Commissioner-General any administrative changes and improvements calculated to increase their productivity. Any changes in the rates producing such revenues which might be such as to reduce their minimum total yield, expressed in gold, as this may be determined before the issue of the loans in order to provide the necessary annuities, shall first be submitted for the approval of the Committee of Control. The same rule shall apply to proposed contracts for the concession or farming out of those revenues.

Article 11.

In case the yield of the assigned revenues should be insufficient and should involve a possibility of bringing into operation the guarantee of the Governments, the Committee of Control may require that other revenues sufficient to meet the service of the annuity shall be assigned as security.

Any draft instrument or contract which is likely materially to change the nature, condition or administration of the public domain of Austria shall be communicated to the Committee three weeks before the instrument becomes final.

Article 12.

The Committee of Control shall meet from time to time at such dates as it may itself determine, preferably at the seat of the League of Nations. It shall communicate only with the Commissioner-General, who shall be present or shall be represented at the meetings of the Committee of Control. The decisions of the Committee shall be taken by an absolute majority of the votes present ; provided always that a majority of two-thirds of the votes present shall be required for any decisions under Articles 7 and 8.

An extraordinary meeting of the Committee of Control shall be convened on a request supported by not less than ten votes.

Article 13.

The Committee of Control, or any one of its members, may demand any information or explanations as to the elaboration and the execution of the programme of financial reform. The Committee may address any observations or make any representations to the Commissioner-General which it recognises to be necessary to safeguard the interests of the guarantor Governments.

Article 14.

In the event of abuse, the Committee of Control or any guarantor State may appeal to the Council of the League of Nations, which shall give its decision without delay.

Article 15.

In the event of any difference as to the interpretation of this Protocol, the parties will accept the opinion of the Council of the League of Nations.

In faith whereof the undersigned, duly authorised for this purpose, have signed the present Protocol.

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations and shall be registered by it without delay, on the fourth day of October, one thousand nine hundred and twenty-two.

(Signed) BALFOUR.

(Signed) SEIPEL.

G. HANOTAUX.

IMPERIALI.

{ KRČMÁŘ.

{ POSPISIL.

ANNEXES TO PROTOCOL No. II.

[Translation.]

PREAMBLE.

1. The guarantee granted by the States signatories of Protocol No. II shall be employed for an Austrian loan of 650 million gold crowns, bonds for which shall all be of the same character and shall offer the same security, the Financial Committee having calculated that the Austrian deficit needs to be increased from 520 to 650 million gold crowns so as to take into account the advances made by certain Governments in the course of this year, which carry the right to repayment either from the proceeds of the loan organised by the League of Nations, or in securities enjoying the same guarantees and the same advantages.

2. In order, however, that the advances which may result from the guarantee of that part of the Austrian loan which should be devoted to the repayment of advances already made may not devolve on States not interested in this repayment, and in order that the sacrifices which may ultimately have to be asked of those States should not be greater than those which would be entailed in the guarantee by them of a loan of 520 million gold crowns, the Governments entitled to repayments from the Austrian Government (the British, French, Italian and Czechoslovak Governments) have laid down the provisions which form the subject of Annex B.

ANNEX A.

The French, Italian and Czechoslovak Governments undertake to assign for the guarantee of the issues of Treasury bonds or similar Treasury operations, guaranteed by the gross receipts of the Customs and tobacco monopolies and envisaged in the report of the Financial Committee for the period previous to the Vote by the various Parliaments of authority for the guarantees, the balance of the advances promised in 1922 to the Austrian Government, the total amount of which was fixed at

France	55 million francs.
Italy	70 million lire.
Czechoslovakia	500 million Czechoslovak crowns.

By the word "balance" should be understood not only the sums not yet paid in respect of the above totals, but those which, having been paid, might be capable, by reason of their present employment, of being liberated for a different use with the consent of the Austrian Government. As soon as this has been obtained, the balances, as here defined, should be placed without delay at the disposal of the Austrian Government to be utilised — under the authority of the Commissioner-General or of the Provisional Delegation of the Council — in the Treasury operations referred to above.

As soon as the legislation voted by the various Parliaments authorising guarantees shall have obtained a total of at least 80 %, the balances of the advances thus utilised as guarantees shall be liberated and reimbursed to the Governments interested.

Done at Geneva on October the fourth, one thousand nine hundred and twenty-two.

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
{ KRČMÁŘ
{ POSPISIL.

ANNEX B.

The apportionment of the guarantee between the four Governments, British, French, Italian and Czechoslovak, provided for in Article 5 of Protocol II and

paragraph 2 of the preamble, shall take place in accordance with the following provisions :

(1) The guarantee of the annuities corresponding to the sum of 130 millions required for the reimbursement of the advances referred to in the first paragraph of the preamble, shall be apportioned as to one-third to each of the British, French and Czechoslovak Governments.

(2) With regard to the sum required for the reimbursement of the Czechoslovak credit, amounting to about 80 million gold crowns, the Czechoslovak Government undertakes to limit to 60 million gold crowns the total of the reimbursement which it will have the right to claim from the proceeds of the loan. It will accept in payment of this share of 60 millions, bonds of this loan issued over and above the total of the effective subscriptions. With regard to the balance of this claim, it will be satisfied that it should be covered by securities in Czechoslovak crowns and enjoying the same rights and guarantees as the bonds of the loan, but it is understood that these securities shall not benefit by the guarantee of the other Governments, and may be issued in excess of the sum of 650 millions.

The British and French Governments, which are entitled, by the terms of their contracts, to complete reimbursement of the amount of their advances out of the proceeds of the first loan, accept a scale of progressive repayment, charging the larger part of the repayment on the later instalments of the loan.

Italy shall have the right of reimbursement out of the proceeds of the loan, in accordance with a scale of payment identical with that adopted for the English claim, on that part of its advance which shall not have been repaid after having been utilised in accordance with the terms in Annex A. In the case of the guarantee coming into force, Italy shall, in respect of the guarantee of the 130 millions, be responsible only for the liability appertaining to that part of the annuity of the loan which corresponds to the total.

To the extent to which Italy shall thus be led to assume a portion of the guarantee of the 130 millions, the share of the guarantee borne by France, Czechoslovakia and Great Britain shall be correspondingly diminished.

Done at Geneva, the fourth day of October, one thousand nine hundred and twenty-two.

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
{ KRČMÁŘ.
{ POSPISIL.

EXPLANATORY NOTE.

From a comparison of Article 5 of Protocol No. II (which fixes at a maximum of 84% the guarantee to be given by the four Governments and to be apportioned as may be arranged) with the Preamble and with Annex B, it follows :

That each of the four Governments undertakes to guarantee 20% of the annuity corresponding to the capital of the loan floated to meet the deficit of 520 millions ;

That the apportionment of the guarantee for the remainder of the annuity, which corresponds to the difference (130 millions) between the total of 650 and this sum of 520 millions, will be made in accordance with Annex B.

(Signed) BALFOUR.
G. HANOTAUX.
IMPERIALI.
{ KRČMÁŘ.
{ POSPISIL.

Geneva, October 4th, 1922.

PROTOCOL No. III.

[Translation.]

The undersigned, acting in the name of the AUSTRIAN GOVERNMENT, and duly authorised for this purpose, declares that he accepts the following obligations :

(1) The Austrian Government will ask its Parliament to ratify the political declaration signed by it which is the subject of Protocol No. I.

(2) The Austrian Government will, within one month, in collaboration either with the Commissioner-General, whose functions form the subject of paragraph 4 below, or with such provisional delegation of the Council of the League of Nations as may be appointed for the purpose, draw up a programme of reforms and improvement, to be realised by stages and designed to enable Austria to re-establish a permanent equilibrium of her budget within two years, the general outline of which is defined in the report of the Financial Committee (Annex). This programme must place Austria in a position to satisfy her obligations by the augmentation of her receipts and the reduction of her expenditure ; it will exclude any recourse to loans except under the conditions determined by it ; it will prohibit, by the terms of the statutes to be drawn up for the Bank of Issue, which is to be created, any further monetary inflation.

It should further enable Austria to assure her financial stability on a permanent basis by a series of measures leading to a general economic reform. The report of the Economic Committee dealing with this aspect of the problem shall be duly communicated to the Commissioner-General.

It is understood that, if the first programme should appear in practice to be insufficient to re-establish permanent equilibrium of the budget within two years, the Austrian Government will be bound, in agreement with the Commissioner-General, to introduce therein the modifications appropriate to the result which it is essential to attain. The Austrian Government will ask its Parliament to approve the above-mentioned plan.

(3) The Austrian Government will forthwith lay before the Austrian Parliament a draft law giving, during two years, to any Government which may then be in power, full authority to take all measures, within the limits of this programme, which in its opinion may be necessary to assure at the end of the period mentioned the re-establishment of budgetary equilibrium without there being any necessity to seek for further approval by Parliament.

(4) Austria accepts the nomination by the Council of the League of Nations of a Commissioner-General who shall be responsible to the Council and removable by it. His functions are defined in broad outline in the report of the Financial Committee.

His duty will be to ensure that the programme of reforms is carried out and to supervise its execution. The Commissioner-General shall reside at Vienna. He may provide himself with the necessary technical personnel. The expenses of the Commissioner-General and of his office shall be approved by the Council and supported by the Austrian Government. The Commissioner-General shall present monthly to the Council a report upon the progress of the reforms and the results achieved. This report shall be communicated without delay to the members of the Committee of Control.

The Austrian Government agrees that it may not dispose of any funds derived from loans, or undertake any operation with a view to discounting the proceeds of loans, except by authorisation of the Commissioner-General ; provided that the conditions which the Commissioner-General may attach to such authorisation shall have no other object than that of assuring the progressive realisation of the programme of reforms and of avoiding any deterioration of the assets assigned for the service of the loan.

If the Austrian Government considers that the Commissioner-General has abused his authority, it may appeal to the Council of the League of Nations.

The functions of the Commissioner-General shall be brought to an end by a decision of the Council of the League of Nations, when the Council shall have

ascertained that the financial stability of Austria is assured, without prejudice to any special control of the assets assigned for the service of the loan.

(5) The Austrian Government will furnish as securities for the guaranteed loan, the gross receipts of the Customs and of the tobacco monopoly, and, if the Commissioner-General should deem it necessary, other specific assets determined in agreement with him. It will not take any measure which in the opinion of the Commissioner-General would be such as to diminish the value of such assets so as to threaten the security of the creditors and of the guarantor States. In particular, the Austrian Government may not, without the approval of the Commissioner-General, introduce into the rates producing the revenues assigned as security any changes which might be such as to reduce their minimum total yield expressed in gold as this may be determined, before the issue of the loans, in order to provide for the necessary annuities.

The yield of the gross revenues assigned as security will be paid into a special account, as and when collected, for the purpose of assuring the service of the annuity of the loans. The Commissioner-General may alone control this account. The Commissioner-General may require such modifications and improvements as may increase the productivity of the revenues assigned as security. If, notwithstanding such representations, it should appear to him that the value of these assets is seriously prejudiced by their management by the Austrian Government, he may require that this management shall be transferred to a special administration, either by the constitution of a Government monopoly or by the grant of concessions or of leases.

6 (a). The Austrian Government undertakes to grant no concessions which, in the opinion of the Commissioner-General, might be such as to compromise the execution of the programme of reforms.

(b) The Austrian Government will surrender all right to issue paper money and will not negotiate or conclude loans except in conformity with the programme above set out and with the authorisation of the Commissioner-General. If the Austrian Government should consider itself obliged to envisage the issue of loans not covered by the conditions of the programme contemplated in this Protocol, it would first submit such plans for the approval of the Commissioner-General and of the Committee of Control.

(c) The Austrian Government will ask its Parliament to make such modifications as are considered necessary, in accordance with the report of the Financial Committee (Annex), both in the statutes of the Bank of Issue and, should the occasion arise, in the Law of July 24th, 1922 (*Bulletin des Lois* No. 490). The statutes of the Bank of Issue shall assure it complete autonomy in its relations with the Government. The Bank should be responsible for the cash transactions of the State, it should centralise the Government's receipts and payments and should furnish periodical financial statements at the dates and in the form which may be determined in agreement with the Commissioner-General.

(d) The Austrian Government will take and carry out all decisions necessary for the full realisation of the programme of reforms, including all necessary administrative reforms and the indispensable alterations in the legislation.

(7) The Austrian Government will take all measures necessary to ensure the maintenance of public order.

(8) All obligations defined above relating to the functions of the Commissioner-General or to financial or administrative reforms, so far as they relate to a period subsequent to January 1st, 1923, are conditional and shall not become finally binding until the British, French, Italian and Czechoslovak Governments have confirmed their promised guarantees by the approval of their respective Parliaments.

Nevertheless, the Austrian Government definitely undertakes :

(a) to take as from the present date all measures in its power to reduce the deficit ; these measures are to include, in particular, increases in the railway, postal and telegraphic rates, and in the sale prices of the products of the monopolies ;

(b) to submit immediately to the Austrian Parliament the draft law contemplated in paragraph (3), which will give for two years to the Government now in office, or to any succeeding Government, full authority to take all measures which in its opinion may be necessary

to assure the re-establishment of budgetary equilibrium at the end of that period ;

(c) to prepare immediately a programme of reform, to set in motion the necessary legislative action and to apply the first measures of execution contemplated by the programme, between the present date and January 1st, 1923.

(9) In the event of any difference as to the interpretation of this Protocol, the parties will accept the opinion of the Council of the League of Nations.

The present Protocol shall be communicated to those States which have signed Protocol No. II signed at Geneva on October 4th, 1922.

In faith whereof the undersigned, duly authorised for this purpose, has signed the present Protocol.

Done at Geneva in a single copy, which shall be deposited with the Secretariat of the League of Nations and shall be registered by it without delay, on the fourth day of October, nineteen hundred and twenty-two.

(Signed) SEIPEL.

X.

REPLY OF THE FINANCIAL COMMITTEE
TO QUESTIONS REFERRED BY
THE AUSTRIAN COMMITTEE OF THE COUNCIL.

The Financial Committee has the honour to report that it has studied the questions referred to it by the Austrian Committee of the Council, in consultation with the Austrian representatives, and is now able to submit the following replies, which represent the unanimous opinion of the Committee.

QUESTION 1¹.

The Financial Committee is requested to consider, in consultation with the Austrian representatives, what measures are required and are practicable to secure budget equilibrium, and after what period it considers that, with these measures, the result desired should be obtained.

ANSWER.

The answer to this question cannot be given with certainty, for the period depends essentially upon the resolution and the authority of the Austrian Government in carrying out the drastic reforms recommended. But if this vital condition is realised, the Committee considers that it should be possible to attain budget equilibrium *in two years*, and it is on this basis that the further recommendations are made.

The main measures required for this purpose are :

(a) *Reform of State Industrial Enterprises.*

State industrial enterprises should be either suppressed if merely useless, or run by the State upon a commercial, *i. e.*, paying, basis, or, in suitable cases, transferred to private management by concessions. The abolition of loss under these heads would involve a total annual saving of about 170 million gold crowns. The most important instance is that of the railways, which at present involve a deficit of 124 million gold crowns. The reason is partly the excessive number of employees, which should be reduced, and partly the low tariffs. While wages follow the cost-of-living index, the tariffs have only been raised to about one-fifth of what they would be on this basis. Under the Treaty of St-Germain, these low tariffs apply also to transit trade, and, therefore, benefit the foreigner. The Committee considers that the railways should cease to involve loss within the period of two years, and, in view of the important transit trade, should ultimately be a source of profit.

(b) *Reduction of Officials.*

Vienna, as the capital of a country of 6 millions, has more State employees than when she was the capital of an empire of over 50 millions. The Committee considers that an effective reduction of gold expenses by at least one-third should be effected within the transition period.

In addition, the subventions to the local administrations to assist them in paying their own officials on the basis of the cost-of-living index should be suppressed.

These reforms would give an annual saving of 130 million gold crowns.

¹ The replies to questions 1, 2, 3 and 4 give only the summarised conclusions of the Committee, and not the detailed reports on which they are based. The replies to these questions were dated September 15th, 1922.

QUESTION 2.

The Financial Committee is requested to consider what deficit, in terms of gold, must be contemplated as necessary during the intervening period.

ANSWER.

The Committee estimates the total deficit during the period of two years as 520 million gold crowns, to which must be added the sum required to reimburse certain advances made this year, raising the total to 650 million gold crowns. To enable the reforms to be effected, this sum must be available from credits.

This estimate is based upon the following "normal budget", which allows for the above reforms :

Expenditure (normal budget).	Millions of gold crowns.
Public debt	52
Pensions	42
Civil service	100
Army	20
Social assistance	23
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It should be possible to obtain 237 million gold crowns in taxation by the end of two years. This amounts to only 40 gold crowns per head and should be ultimately capable of increase ; but the difficulties which now result from low assessment during a period of depreciation and those of a different kind which follow immediately upon a stabilisation make the full attainment of this figure at an earlier date improbable.

QUESTION 3.

What securities can Austria offer for private credits and what is their approximate gold value ?

ANSWER.

The most suitable securities should, with the necessary administrative reforms, yield the following annual returns :

	Millions of gold crowns.
Forests and domains	1
Salt	1
Customs	40
Tobacco	40

Of these, the first three are assigned as security in connection with the new Bank of Issue under the Austrian Government's plan for the Bank. On a conservative estimate, however, of these claims, this would leave 28 millions of the Customs available as a second-rank security, in addition to the 40 millions from the tobacco monopoly as a first-rank security.

Moreover, the Committee considers (see answer to Question 4) that the plan for the new Bank of Issue can safely be modified so as to leave the *whole* of the Customs as a first-rank security for the credits required for the transition period.

In addition, the *impôt foncier* should, if necessary, be available (with reform) as a further first-rank security.

The service of a loan amounting even to the maximum of 650 million gold crowns should not exceed about 70 million gold crowns.

In the unanimous opinion of the Committee, therefore, the securities are ample for the credits required for the transition period, on the vital conditions that the reforms recommended are carried through (and the necessary measures taken to ensure sufficient authority to give confidence that they will be carried through) and that external and internal order are assured.

QUESTION 4.

The views of the Financial Committee are requested on the proposed Bank of Issue for Austria.

ANSWER.

The Committee considers that the establishment of a Bank of Issue is a useful and indeed vital part of the measures required for Austria's re-establishment.

The Committee considers, however, that :—

(a) The capital proposed, 100 million gold francs, is altogether excessive : 30 millions should suffice ;

(b) The guarantee by the State of the capital of the Bank and of an adequate return upon it, secured by a first charge on the Customs, should be relinquished. This should be possible if the other measures for the re-establishment of Austria's finances are adopted.

(c) The capital should be raised by private subscriptions. If public funds must be used, the public interests should be sold out to private holders at the earliest opportunity.

(d) The present provision that directors and substitutes elected by general meeting require the confirmation of the Federal Government should be eliminated.

The Committee desires, however, to emphasise the fact that the Bank can only be of use in re-establishing Austria's credit organisation if the drastic reforms required to establish budget equilibrium are also taken (and the necessary credits for the transition period are obtained) ; and that, even so, it cannot be permanently successful unless her economic position is also gradually established.

QUESTION 5 ¹.

Under what conditions can means be proposed for covering the deficit during the period of transition ?

ANSWER.

I. The Financial Committee estimated that the deficit to be covered by means of loans during the first two years is in the neighbourhood of 520 million gold crowns, plus a sum to cover certain advances made this year which raises the total to 650 million gold crowns. This is a budget deficit, and, in the first instance, it is Austrian currency, not foreign currency, which is required to meet it. It may be expected, therefore, that, once Austria's internal credit is re-established, a considerable proportion of the deficit will be covered by internal loans. But at present Austria's credit is non-existent, and neither internal nor external borrowing is possible for her until the following financial conditions have been satisfied :

(1) The Austrian Government must forthwith (without waiting for any decision by the League of Nations) take all measures within its power to prevent an increase of the deficit (such as raising of railway, postal, telegraph, and telephone charges, increases in the prices at which the products of the tobacco and salt monopolies are sold, etc.

(2) A control must be organised and set to work, and evidence must be given of the full co-operation of the Austrian Government in securing its efficient functioning.

(3) The Customs revenues and the tobacco monopoly, subject to the necessary improvements in administration, must be allocated as security for loans.

¹ The replies to questions 5 and 6 were dated September 18th, 1922.

The re-establishment of Austria's credit is further dependent on the adoption of various other measures already under discussion by the Austrian Committee of the Council, such as : the guaranteeing of Austria's territorial and economic integrity, under the auspices of the League of Nations ; the improvement of Austria's economic international relations, as well as of her internal economic structure ; the establishment of an efficient gendarmery throughout Austria ; the establishment of the proposed Bank of Issue ; and the cessation of new issues of paper money.

When all these measures have been taken and have proved their value, it is reasonable to hope that Austria may be in a position to borrow, both internally and externally, on her own credit. But it would be vain to expect that such reforms could be effectively initiated unless, at the time of their initiation, the Austrian Government and people were able to look forward with some certainty to the achievement of their final purpose of re-establishing financial and economic equilibrium. Moreover, the deficit begins to accrue at once, and the necessary credit on which loans can be issued to provide ways and means for covering the deficit will not exist for many months unless some basis for credit is found from outside Austria.

The Financial Committee is therefore driven to the conclusion that a successful reconstruction of Austria is impossible unless some of the Powers are prepared to guarantee the loans required to cover the anticipated deficit. It is recognised that such guarantees cannot be given in most cases without the consent of the Parliaments of the guaranteeing Powers, but, if promises of guarantees subject to parliamentary confirmation can be secured at once, these would provide the necessary basis of credit on which the initiation of the reforms depends. The guarantees must cover the full maximum deficit, since it would be both difficult and perilous to embark on the full programme of reform if the means for completing it were not visible from the beginning. This does not necessarily mean that the guarantees for the whole sum will actually come into operation, and it may well prove that the guarantees eventually involve no actual cash liability upon the guarantors. If the reform programme succeeds, there is reason to hope that some part of the maximum deficit can be provided internally or without external guarantees, and that the revenues of the Austrian State will amply secure the service of the guaranteed loans without recourse to the guarantors. But it remains true that guarantees covering the whole total are an essential pre-requisite. The larger the number of guaranteeing Powers, the broader will be the basis of confidence.

II. We proceed now to sketch the practical steps to be taken to deal with the deficit, on the assumption that the reforms indicated are initiated and promises of guarantees up to the total of the deficit have been given by various Powers.

The period of transition can best be examined in four stages, *viz.* :

First stage : from the Promise of Guarantees till the Initiation of the Control.

During the first stage, it is essential that the Austrian Government should take all possible measures for reducing the deficit, but otherwise no change from present conditions will be possible.

Second stage : from the Initiation of the Control till the Ratification of the Guarantees by the respective Parliaments, say December 31st, 1922.

It is assumed that the new Bank of Issue will open its doors within a few weeks, and the control to be set up under the auspices of the League of Nations will begin to function. We estimate that from 120 to 160 million gold crowns will be required to cover the deficit during this second period.

We believe that this sum can be met, so far as it is not covered by the reserve at the disposal of the Austrian Government at the moment of the initiation of the control, on the following lines : There are available out of the unspent portion of the French, Italian, and Czechoslovak credits, sums understood at the date of this report to amount to about 45 million gold crowns.

If the lending Governments agree, these sums could be used as part security for three- or six-months Treasury Bills (expressed in gold crowns, or in some foreign currency) to be issued in Austria by the Austrian Government and

purchased by the Austrian banks. The Bills might be further secured by a first charge on the Customs and on the tobacco monopoly. Possibly the gold belonging to the old Austro-Hungarian Bank might also temporarily be used as security for these Treasury Bills, instead of being deposited in the new Bank of Issue. It would be a matter for arrangement between the Government and the banks, which are largely concerned in the Bank of Issue, which of the two uses for the gold is preferred. The Austrian banks might reasonably be asked to accept these conditions as their contribution to the success of the reforms.

Third stage : from Ratification of the Guarantees to the Issue of a Long-term Loan.

As soon as the Government guarantees become available, Austrian Treasury Bills in gold crowns or foreign currencies can be issued, subject to right of redemption out of the proceeds of the prospective loan, secured either as proposed during the second period or by the guarantees of the Powers. The method of using the guarantees can best be discussed in connection with the fourth period. It is important that action by the Parliaments of the guaranteeing Powers should not be delayed beyond December 31st, 1922.

Fourth stage : from the Issue of the Loan to the End of the Transition Period, December 31st, 1924.

If any guaranteeing Government so prefers, it can, of course, obtain power to lend money direct to the Austrian Government out of its own resources. We assume, however, that most Governments will prefer to confine their assistance to the grant of a guarantee. There are at least three alternative forms under which such guarantees could be given :

(a) Each of the guaranteeing Powers might assume a joint and several responsibility for Austrian loans to be issued up to a maximum total of 650 million gold crowns. Such a guarantee would ensure the placing of the loans on the most favourable terms, but we are of opinion that it is politically impossible to secure such a joint and several guarantee.

(b) Each Government might guarantee a loan to be issued by Austria on the security of the pledged Austrian assets, plus its own guarantee, up to a given maximum, which would be an agreed proportion of the total required ; *e.g.*, supposing that ten Powers agreed to give such guarantees in equal proportions, there would be ten types of Austrian loans, all secured on the same Austrian assets but guaranteed separately by different Powers. Such a plan would greatly restrict the market for Austrian loans and postpone for a long period the date at which Austrian credit could be expected to be strong enough for an Austrian loan to be placed without external guarantee.

¹ (c) The guaranteeing Powers might agree to guarantee an agreed proportion of a single Austrian loan, issuable in one or more instalments as required ; *e.g.*, supposing, again, that there were ten Powers giving guarantees in equal proportions, each instalment would be guaranteed as to 10 % by each Power, and while the pledged assets would be security for the whole, the individual guarantors would be responsible to the extent of 10 % only.

We are inclined to favour this alternative, but the exact application of the guarantees is a matter which can best be determined by the issuing house, or group of issuing houses, which will be called upon to carry through the actual operation of issuing a long-term loan. An early decision will, however, be necessary as to the form in which the guarantees are to be applied to the issue of Treasury Bills proposed during the third period.

It is unnecessary to pursue these technical details further at the present stage. Our object in alluding to them is to indicate generally the nature of the guarantees which must be asked for from the various Governments, and the necessity for the legislation which authorises such guarantees being drawn in

¹ This third alternative (c) was the one adopted by the Austrian Committee of the Council.

terms sufficiently wide to cover various eventualities. We are convinced, however, that, if such guarantees are given, there will be no insuperable obstacles in placing all necessary loans in due course either in Austria or in money markets outside Austria, provided always that the Austrian Government and people have, in the meanwhile, proved that they are deserving of the assistance proposed by contributing by all means in their power to the efficient working of the reform plans and of the control established by the League of Nations.

QUESTION 6.

The Financial Committee is requested to state its opinion as to the conditions which are essential in any control that may be instituted in order to give effect to the recommendations made by the Committee with regard to the re-establishment of Austria's budget equilibrium and her credit.

ANSWER.

The aim of the controlling authority should be to assist the Austrian Government and collaborate with it in carrying out the programme of radical reform upon the realisation of which depends the possibility of borrowing.

This programme must be adopted in advance by the Austrian Government, sanctioned by the Council of the League of Nations, or its Austrian Committee, and voted by the Austrian Parliament. But the vote of the Austrian Parliament cannot be regarded as a mere approval of general principles, which will leave the Austrian Government under the obligation of applying for specific legislative authority to carry out the series of measures of reform, involving reduction of expenditure and increase of taxation, which will have to be taken to put the plan into effect. The initial approval should be clearly understood as conferring on the Government full powers to take decisions of every kind *in agreement with the Controlling Authority*, provided that they are in conformity with the approved programme and are directed to giving effect to it.

This programme, which will have been sanctioned by the League of Nations, will, further, become the charter of the Controlling Authority and the source of its powers. The Controlling Authority's task will be to ensure that it is carried into effect, but it will have no mandate to insist upon measures which go outside the limits of the programme or are contradictory to it.

In order to be in a position to fulfil its mission, the Controlling Authority must have the right to determine the nature and form of the accounts, statements or periodical returns which it will require to be submitted to it; to ask for any information which it may regard as useful from any departments of Government; to verify, or cause to be verified, any accounts which it may think fit; and to make investigations on the spot if it so desires. The Bank of Issue, which will be the cashier of the State, should centralise all the accounts of receipts and expenditure and submit periodical returns to the Controlling Authority, certifying receipts, expenditure and credit balances of the various departments of the Austrian State. No borrowing operation of any kind should be carried out without the prior authorisation of the Controlling Authority.

The produce of the revenues pledged for the various loans and the produce of any loans should be placed to the credit of special accounts in the Bank of Issue, and such accounts should not be allowed to be drawn upon without the prior authorisation of the Controlling Authority.

QUESTION 7 ¹.

The Financial Committee is requested to draw up a detailed report on the nature of the control to be established in Austria.

ANSWER.

In compliance with this desire, the Financial Committee has the honour to commend to the attention of the Austrian Committee of the Council the following observations, which express its unanimous opinion.

¹ Dated September 26th, 1922.

The organisation of a form of control to be applied to Austria raises new problems; for the solution of which precedents can only be appealed to with the greatest caution.

The functions of control, as the Austrian Sub-Committee has already defined them, on the recommendation of the Financial Committee, are to be imposed in accordance with a detailed scheme invested with a twofold authority: that of the Council of the League of Nations and that of the Austrian Parliament.

As regards the Austrian Government, which is to be endowed with full powers to give effect to this scheme, it is the duty of the Control Authority to insist upon the execution of the scheme.

Hence it follows that: (1) the appointment and the dismissal of the agents of the Control Authority must rest entirely in the hands of the Council of the League of Nations, under the authority of which the execution of the scheme is to be carried out; and (2) that the Council cannot regard the execution of the scheme as a matter with which it has no further concern, and that periodical reports ought to be submitted to it setting out the progress of the work of reform.

It may, however, be asked whether the Council ought to confine its duties within these limits.

It would appear that, if defects or abuses should be ascertained in carrying out this scheme, the Council should continue to be the supreme authority to consider them.

It is, however, desirable that the agents of the Control Authority should have undivided responsibility, and that the Council should not be involved, as the result of constant or frivolous petitions, in interference in the financial administration of Austria. Only by defining in accurate terms the cases where an appeal can be made to the Council for a decision, and the party to whom this right of appeal should be granted, will it prove possible to eliminate these disadvantages.

Among the parties interested, the first place must be given to the Austrian Government.

Consideration, however, should also be given to the rights of the guarantor Governments. The latter, indeed, cannot remain indifferent to the progress of a policy which aims at healthier conditions. They will wish to know whether the latter will have the effect of diminishing or increasing the risks attaching to their guarantees, but it must be clearly understood that only abuses which are of a nature to endanger the satisfactory execution of the programme should give rise to an appeal.

How can the guarantor Governments be enabled to protect their interests, which demand that the programme of supervision should be properly carried out?

It would appear *prima facie* that the duty of supervision cannot be entrusted to representatives of the guarantor Governments. The supervision must be carried out under the control of the Council of the League of Nations alone. In the interests of Austria herself, in order that the Council may fully maintain its superior authority and carry out its role of arbiter, it would be impracticable to confuse the task of supervision, which is to be accomplished in its name, with the representation of the Governments concerned, which possess a recognised right of appeal. It would, however, be reasonable that the representatives of the guarantor Governments should form a committee and should have the right to examine the execution of the programme and to receive necessary information for their enlightenment.

What relations would in that case be established between this committee and the supervising authority?

If the Council is to remain the supreme authority, it would no doubt be undesirable that this committee should be in daily communication with the Controller. We therefore propose that the committee should meet periodically — every three or six months, for example — and for preference at the seat of the League of Nations. In any conference with the representatives of the Control Authority, the committee would be entitled to ask for any information or explanation, but it would not have the right to give instructions. If any serious

difficulties should arise, or should there be any question of serious abuse, the Council would be called upon to arbitrate in the matter.

The further question arises whether the duty of supervision should be entrusted to a single agent or to a body of persons. In order to reduce to a minimum the expenses of control and to ensure the necessary uniformity of view, a single controller would be highly preferable. It should be open to him to secure the help of technical assistants.

The costs of control would be fixed by a decision of the Council of the League of Nations, and would be charged upon the Austrian budget.

The control would come to an end, as a result of a decision of the Council of the League of Nations, when that body was of opinion that the financial stability of Austria had been attained by the execution of reforms, without prejudice to any special control of the guarantees given to secure the interest on the loan.

GENERAL STATEMENT AS TO AUSTRIA'S POSITION.

The Financial Committee has necessarily confined its examination of the measures required to re-establish Austrian finances within the sphere of financial considerations. It recognises that, apart from these considerations, there remains the problem of the fundamental economic position of Austria. Austria cannot permanently retain a sound financial position, even if she attains it for the time, and maintain her present population, unless her production is so increased and adapted as (with due allowance, of course, for her important invisible exports) to give her equilibrium also in her trade balance.

This balance is at present seriously adverse, partly, but certainly not wholly as a result of inflation and currency dislocation. All possible measures, whether by the amelioration of the international economic relations, the encouragement of the conditions which would increase Vienna's *entrepôt*, financial, and transit business, and of those which will attract further private capital towards the development of her productive resources, are, therefore, of the greatest importance.

These are, however, outside the Financial Committee's province. If the appropriate financial policy is adopted and maintained, the Austrian economic position will adjust itself to an equilibrium, either by the increase of production and the transfer of large classes of its population to economic work, or economic pressure will compel the population to emigrate or reduce it to destitution. At the worst, this would be better than the wholesale chaos and impoverishment of the great mass of the town population which must result from the continuance of the present financial disorganisation, which affords no basis for such economic adaptation as is possible.

The Committee feels bound, in conclusion, to issue one word of grave warning. Austria has for three years been living largely upon public and private loans, which have voluntarily or involuntarily become gifts, upon private charity and upon losses of foreign speculators in the crown. Such resources cannot, in any event, continue and be so used. Austria has been consuming much more than she has produced. The large sums advanced, which should have been used for the re-establishment of her finances and for her economic reconstruction, have been used for current consumption. Any new advances must be used for the purposes of reform; and within a short time Austria will only be able to consume as much as she produces. The period of reform itself, even if the new credits are forthcoming, will necessarily be a very painful one. The longer it is deferred the more painful it must be. At the best, the conditions of life in Austria must be worse next year, when she is painfully re-establishing her position, than last year, when she was devoting loans intended for that purpose to current consumption without reform.

The alternative is not between continuing the conditions of life of last year or improving them. It is between enduring a period of perhaps greater hardship than she has known since 1919 (but with the prospect of real amelioration — thereafter the happier alternative) or collapsing into a chaos of destitution and starvation to which there is no modern analogy outside Russia.

There is no hope for Austria unless she is prepared to endure and support an authority which must enforce reforms entailing harder conditions than those

at present prevailing, knowing that in this way only can she avoid an even worse fate.

The following members constituted the Financial Committee when studying the above questions :

Chairman : M. JANSSEN.

Members : M. ARAI.

M. AVENOL.

Sir Basil BLACKETT.

Mr. FASS (substitute for Sir Basil Blackett).

Dr. POSPISIL.

Sir Henry STRAKOSCH.

Temporary members : M. Maggiorino FERRARIS.

M. A. SARASIN.

XI.

RESOLUTIONS ADOPTED BY THE ECONOMIC COMMITTEE
OF THE LEAGUE.

(1) The Economic Committee notes that objections are raised by certain Succession States to securing at present the immediate putting into force of the Porto Rosa recommendations regarding commercial relations. It is of opinion that, at the present time, the means most likely to promote the economic reconstruction of Austria would be to adopt and extend the application of the principle contained in Article 2 of the Protocol of Porto Rosa, by encouraging and hastening the conclusion of conventions and bilateral agreements between Austria and each of the other Succession States, such conventions and agreements to be based as far as possible on the Protocol, but with such modifications as it may be thought possible and advisable to introduce in order to adapt them to each special case.

(2) The Economic Committee is of opinion that, while, on the one hand, the amelioration of the financial situation of Austria is an essential condition of her economic reconstruction, nevertheless, financial assistance would by itself undoubtedly be insufficient for such reconstruction if Austria did not seriously set herself to reform the conditions both of her economic regime and of her foreign trade, and if she did not adopt a programme calculated to render productive the State undertakings which are at the moment a serious charge not only on her budget but on her whole economic system. The granting of any loan must be conditional upon her giving definite undertakings regarding the reforms and programme mentioned above.



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GENEVA,
April 8th, 1922.

League of Nations.

Provisional Economic and Financial Committee,
FINANCIAL SECTION.

NOTE ON THE PLAN FOR
AN INTERNATIONAL CLEARING HOUSE

By M. A. E. JANSSEN,
Director of the National Bank of Belgium.

PROVISIONAL ECONOMIC AND FINANCIAL COMMITTEE,
FINANCIAL SECTION.

Note on the Plan for an International Clearing House.

By M. A. E. JANSSEN, Director of the National Bank of Belgium.

The International Financial Conference held at Brussels in 1920 was unanimously of opinion that the League of Nations might usefully exert its influence with a view to promoting certain reforms; amongst others it mentioned the desirability of making some progress as regards the question of the creation of an International Clearing House.

This question is not a new one, and had been the subject of various detailed proposals even before the world-war of 1914.

In 1908, M. Luzzati, the Italian statesman, who has brought so much renown to his country, made a most interesting statement on this subject to the Institute of France.

Certain persons of different nationalities, amongst whom I may mention M. Wolff, Professor at the University of Breslau, and Mr. Cortelyou, Secretary of the United States Treasury, also proposed the co-operation of Banks of Issue at times of crisis.

The question was fully examined at a Congress held at Brussels in 1912 by the International Economic Union, and the conclusions reached were embodied in a resolution which may be recalled here.

I.

"The International Economic Union expresses the desire that European Banks of Issue should hold international conferences.

"The object of these conferences would be to examine all proposals for improving and perfecting the present system of international payments, and to make preparations for the carrying out of plans recognised as expedient and feasible.

"Moreover, conferences of this kind are essential in order to render possible the effective co-operation of Banks of Issue in exceptional circumstances.

II.

"Amongst the projects which could be put into practice at once by a Conference which included delegates of the Central Banks, the International Economic Union calls attention to the following:

"1. The establishment of a system of international transfers for the benefit of holders of current accounts in Banks of Issue.

"2. An International Clearing House which would adjust the debits and credits of all adhering banks by the clearing system.

"3. The reciprocal collecting of any foreign bills which they may hold.

"4. The issue, at the request of the public, of international letters of credit or cheques by one bank on another.

III.

"In their present isolated position it would be difficult for Banks of Issue to take up the above proposals. Hitherto all kinds of considerations have caused them to hesitate to take any action abroad in connection with the development of the system of international accountancy. The holding of conferences will necessarily lead Banks of Issue to co-operate with a view to ascertaining what improvements it may be possible to introduce into the organisation of international credit and methods of payments. As regards the difficulties of application, whether of an objective or personal nature, they would become clearly apparent, and the discussion of them would not be merely theoretical."

In order to appreciate the purport of these proposals, it is desirable to recall briefly how international payments are made.

In practice, settlements between one country and another are generally effected by clearings; that is to say, by an exchange of drafts and cheques and by direct or indirect remittances. These operations are settled by means of the current accounts which the banks, which in each financial centre specialise in exchange operations, carry with one another. In some circumstances these international clearings are more difficult; they are effected, however, by means of a series of reciprocal actions and reactions, by the movement of goods and, above all, of securities rather than of specie. Further, in accepting bills of exchange against cheques — that is to say, bills payable at maturity against other bills payable at sight — the banks also alter the balance of accounts; this amounts to a credit operation in that the term of maturity is postponed. Before the war, however, whenever for various reasons the system of clearing was not employed and payment was demanded, it was found that the system which often operated with considerable success was an adjustment of the bank rate by the central Banks of Issue.

When the balance of payments was momentarily upset, the rates of foreign exchanges were immediately affected by it. The balance standing to the credit of foreign countries had to be paid and the metal reserves of the Banks of Issue were drawn upon. In order to arrest the outflow of gold, the usual remedy was rapidly to raise the official bank rate; but even this was not effective unless the Central Bank controlled the money market sufficiently to have an effect on the open market rate. This procedure induced foreign creditors to take advantage of the increased interest on the debtor exchange; for this reason they postponed the time for demanding payment of the balance, and consequently the gold reserve remained at the Central Bank as the covering for payments at sight, banknotes and balances standing to the credit of current accounts.

In addition to the system of the adjustment of the bank rate, properly so-called, various Banks of Issue had recourse to fiduciary currency in order to avoid inroads upon their holdings. Banks thus succeeded in avoiding purely temporary increases in the bank rate.

Sometimes the rise in the bank rate did not produce the expected result. In spite of the bait offered by a high rate of interest, capital nevertheless left the country either because there was no longer any confidence in the credit of the debtor market or because of an urgent need of specie in foreign countries. Thus, in November 1907, the Bank of England raised the official rate to 7 per cent., but did not succeed in checking the export of gold to the United States, where an acute financial crisis was raging. But for a timely intervention on the part of the Bank of France, in the form of a direct consignment of gold to the Bank of England, it would not have been surprising if the bank rate in London had risen to 10 per cent., at the risk of causing profound disturbance in English trade, and, as a result, in Continental trade. Similar situations also arose in 1890 and 1906.

In these circumstances, M. Luzzati would have liked, by an international arrangement — the basis of which would be discussed and fixed by a Conference composed of delegates from the Banks of Issue — to ensure a more satisfactory division of the amounts of gold required to prevent excessive rises in the bank rate. He suggested in particular: "France, Italy and Russia might make loans to England; Austria to Germany; and thus England could render greater help to the United States. That, at least is how matters stand to-day; to-morrow they may be the reverse. Who knows whether the helping countries may not become the countries in need of assistance?" This is what has actually happened!

This plan had much to commend it; it was based on the fact that, as the result of the interdependence of the great financial markets, any national financial crisis reacted internationally by obliging foreign banks to intervene by sending consignments of gold. The bank rate policy then practised by Banks of Issue merely tended to aggravate a crisis. This struggle for gold, represented by the reciprocal raising of the bank rates, was allayed by the furnishing of gold credits.

We must recall the circumstances in which the intervention of the Bank of France took place.

In 1890, one of the greatest banking houses in London — the House of Baring — was on the point of suspending payment. As a result, there was a great disturbance in the London market. The official bank rate was already 6 per cent, and as the Bank of England is not empowered to pay its notes in silver, and as, moreover, its charter limits the possible margin between its notes and its gold reserve, it had no other means at its disposal but further to increase its bank rate. But if the Bank of England increased its rate still further at that moment, when there was already a difference of 3 per cent. between the London and the Paris rates, the Bank of France would almost certainly have been obliged to imitate its neighbour and to raise its own bank rate, to the detriment of French trade.

In these circumstances, the Bank of England approached the Bank of France, asking it for help in order to maintain its gold reserve at a level which would enable it to avoid the necessity of raising its rate above 6 per cent. The Bank of France did not hesitate to send a favourable reply to this proposal, in the interest of the commercial relations of the two countries, and still more in that of French trade, and, most of all, in the interest of the Parisian money market. It thereby avoided a financial crisis which was threatening in England and which would have reacted acutely upon the French market. An advance of seventy-five millions in gold was granted to the Bank of England for a period of three or six months at its own option against the discount at 3 per cent. of English Treasury Bonds, and on the express condition that this sum would be returned in the same metal to the reserves at Paris. The Bank of England thus succeeded in carrying out its functions without contravening the Act of 1844, in spite of the disturbance of credit on the London market caused by the fall of the House of Baring. This action on the part of the Bank of France was the subject of a question by M. Francis Laur in the French Chamber on January 17th 1891, and M. Rouvier, who was then Financial Minister, replied that the Bank had acted on this occasion with the authorisation of the Minister responsible. On several occasions since then the Bank of France has thought fit to take similar action. We quote below two extracts from the records of the Bank of France, making clear the conditions under which this course was adopted.

In the first place, we find the following in the report on the operations of the Bank of France for the year 1906:

"The tightness of money, which accompanies a development of business such as that which we are witnessing at the present moment throughout the world, has not failed to arise, without, however, causing any prejudicial effects in France.

"The European markets have been affected to a very large extent because unaccustomed demands have been made upon them from all parts of the world, and particularly from the United States. The bank rate has rapidly risen. It reached 6 per cent. in London, and even this increase proved insufficient to check the outflow of money, and there was reason to fear that the financial tension, if not relieved, would be felt in France and would compel us in our turn to raise our bank rate.

"In these circumstances we had a double duty. We had, on the one hand, to provide the market both at home and abroad with the necessary reserves to prevent the rise in the exchange, which would inevitably have reacted on our country. On the other hand it was our duty to avoid encouraging speculation, which would have been bound to cause a great rush of business, and might have resulted, if not averted in time, in a crisis. The Bank of England has fulfilled this double rôle as far as it was permitted to do so.

"In pursuance of a financial policy which has hitherto been justified by events, we have discounted English paper and provided the London market with the funds necessary to enable it to emerge from this difficult position.

"We did not part with our gold without due consideration, and without being certain that it was directed to centres where it would prove of real service and where we had a real interest in preventing a possible crisis, from the point of view of French trade.

"The Bank of France has, therefore, fulfilled its essential function of controlling and adjusting the bank rate in the national market; it has secured this result by various means, but in particular, and above all, by a procedure which has, moreover, met with general approval. The extent of its reserves has enabled it not to limit its action to the French market alone. The difficulties came from abroad, and the Bank went to the actual source of these difficulties in order to allay them and to assure, by action in the London market, the stability and moderation of the bank rate in Paris.

"By utilising the power granted by our statutes to discount bills on foreign exchanges, we substituted for these bills an equal quantity of gold, which was sent to those centres which at the moment had real need of our assistance, with the certainty of seeing our gold returned.

"The formation of a holding in foreign bonds, which had, moreover, already been provided for in our balance-sheet, had hitherto only been regarded by Banks of Issue as a means of protecting the reserves of metal in the event of a rise in the exchange. Our gold reserve was so great as to enable us to place at the disposal of a neighbouring friendly country the bullion reserves necessary to avoid a financial tension which might soon have obliged us to take defensive measures ourselves.

"At the same time we refused to discount paper presented with the obvious purpose of obtaining means for excessive speculation abroad.

"Owing to these various measures, which were rendered possible by our large national reserves, we were able to maintain the trade rate of discount for the year 1906 at 3 per cent."

Similar action was taken in the following year. The Governor of the Bank of France, in his report on the financial year of 1907, referred in the first place to "the crisis — much more acute (than that of the preceding year) — which began at New York in the second half of October (1907), threatening the European exchanges with sudden and violent effects," and he continued as follows:

"The first market to be seriously affected was the London market, which, owing to the wide field of its business and the intricate nature of its relations, is more closely bound up than any other with the American market, where the scarcity of gold, which had disappeared from circulation under the influence of a want of confidence which drove everyone to realise, neutralised the effect of consignments and arrivals of gold from abroad.

"The increase of the Bank of England rate to $5\frac{1}{2}$ per cent. did not succeed in checking the drainage of gold, which was in demand, owing to the considerable premium to which it rose within a few hours in the principal towns of the United States.

"We could not hide the fact that, in face of such a panic (specie was only lacking in circulation because it was being hidden away), no practical result would be obtained by having recourse to successive increases in the bank rate; such measures would only prove a drain on the circulation and would compel us, like our neighbours, to fix an exorbitant bank rate.

"Instead of adopting this course, which would have been entirely fruitless, what had to be done was to place at the disposal of the Bank of England, as rapidly as possible, resources still greater than in the preceding year, in order that it might forward them to the New York Exchange without weakening its legal reserve.

"We were thus contributing to the preservation of the controlling markets, and it was, of course, to our own interest to send reinforcements to points where the critical conditions threatened to involve us in the general crisis.

"The recourse to this efficacious operation, for the second time, in 1907, was nothing more than the regular application of our constitutional statutes.

"You are aware that the Bank of France should never under any circumstances make any use of funds reserved to cover those of its notes which are not represented by available securities maturing within periods determined by its regulations.

"Moreover, we did not hinder the dispatch of direct consignments of gold to New York, occasioned by the normal discount of French commercial bills; and in the same spirit of friendly solidarity as in the preceding year, in the same form and with the promptitude required by the circumstances (but avoiding implication in the crisis), we guaranteed to the London market available funds to the amount of more than 80 million francs in American gold currency.

"Our balance sheet thus contains, for the second time and for a short period, foreign bills, all the amounts of which are to be repaid to us entirely in gold by the various drawees and which only temporarily — but in a very profitable form — take the place of the sums which we have been able, without any difficulty, to raise on our extensive reserves, in order to preserve the French market from a financial panic the intensity of which is almost without precedent.

"Though, as a result of exceptionally serious circumstances, this friendly support was not sufficient to enable London to avoid fixing a rate of 7 per cent. — which obliged us to raise our own rate of discount by $\frac{1}{2}$ per cent. and to raise the rate for advances from 4 to $4\frac{1}{2}$ per cent. — it is only too certain that if we had not come to the aid of the great and friendly neighbouring market, we ourselves should certainly have been driven to take measures which would have been still more harmful to our commerce and our industry.

"The measures which we took have thus enabled us to preserve for our own nationals the inestimable advantage of a discount rate which is still lower than in all other countries and is free from sudden fluctuations.

"At the end of December the margin between the official rate at Paris and the official rate in London and Berlin was still from 3 to $3\frac{1}{2}$ per cent."

It should be pointed out that the Bank of France was not the only one which carried out this policy of direct intervention in the foreign markets. The Austro-Hungarian Bank also sent gold to Berlin in 1907 with the object of avoiding an excessive monetary tension there and preventing a rise in the bank rate, which would have reacted on the price of money at Vienna.

This occasional mutual aid of Central Banks by means of reciprocal gold loans has proved so successful that there is no need to demonstrate its utility; it is sufficiently proved by the preceding statement.

It is doubtless impossible to transform into diplomatic agreements or permanent arrangements the spontaneous good offices and wise co-operation of which the Bank of France gave an example, but it is desirable that this far-sighted policy

should be imitated by the Banks of Issue, which present circumstances have placed in possession of great financial wealth.

Before the war the objections to this course were principally of a political nature, but to-day rich and poor alike are suffering so greatly from the state of financial instability that it is being realised that co-operation is becoming more and more indispensable in the interests of the nations.

Such was the situation before 1914. During the war and until the first months of the year 1919, international payments between allies took the form chiefly of advances from one State Treasury to another, the heavy burden of which impoverished Europe is now bearing. The financial disturbances caused by the world-war have seriously hindered the working of the delicate mechanism to which, before 1914, the Banks of Issue held the key.

But it is none the less true that clearing still plays a predominant part in the liquidation of international accounts.

To be convinced of this, one need only read the able study of the foreign exchanges which has just been published by M. Jules Decamps, Director of the Economics Department of the Bank of France. But when we speak of clearing, we pre-suppose that there is something to clear, and, unfortunately, as a result of the economic instability prevailing in Europe at the present time, too many countries have many debts and few assets.

A constantly unfavourable commercial balance, combined with large issues of unconvertible paper money, have brought about a loss of equilibrium, of which the present rates of exchange are merely the reflection.

Thus the favourable influence which the establishment of an international clearing-house may exercise must not be exaggerated.

The present situation of the foreign exchanges is the result of causes so deep and so well known that it cannot be effectively remedied by a mere improvement in the methods of international payments.

Having regard to the preceding considerations, a system of international transfers for the benefit of holders of current accounts in Central Banks of Issue, supplemented by a clearing house, could, with a little mutual good-will, be established within a short period.

In this connection, mention should be made of the Convention concluded in 1885 between the Banks of Issue of the three Scandinavian Kingdoms — the Royal Bank of Sweden, the Bank of Norway and the National Bank of Copenhagen.

In accordance with the charters of these banks, each of them is authorised to make current account deposits up to a specified amount in the Central Banks of the two other countries, and the credit balance of these current accounts may be considered as forming part of the metal reserve on which the issue of notes is based. The three Central Banks utilised this power to conclude the Convention, the purport of which we reproduce below:

1. Each of these three banks shall open a current account with each of the others; on this account they may issue cheques payable at sight, even if this involves an overdraft; all sums may be paid in to their respective credits.
2. No interest will be charged on credit or debit balances, nor will any commission be charged on transfers.
3. Cheques may also be drawn on the head offices of the three banks or on the branch of the Bank of Norway at Christiania or Bergen.
4. None of the banks is authorised to draw on the others for the purpose of profit.
5. No cheque may be issued for an amount less than five thousand crowns.
6. No commission is charged on the issue or collection of cheques.
7. Notice must in all cases be given of the issue of cheques.
8. Debit balances must be paid up at the request of the creditor bank.
9. When the balance of an account is drawn in specie, the creditor will assume the risks and defray the costs of consignment.
10. If the bank from whom the debt is claimed has a credit balance with the third bank, it may settle the debt by delivery of a cheque on that bank.
11. All payments under the above articles will be made in gold pieces of 20 or 10 crowns.
12. Accounts will be rendered quarterly.
13. The Convention may be denounced and become imperative after notice given three months in advance.

To sum up:

The three banks have non-interest-bearing accounts with each other, and each bank is entitled to issue cheques on the others even without previous arrangement. The banks may require the amount due to be remitted in gold, but any bank which requires such remittance must itself bear the cost of transport.

The application of this Convention greatly facilitated business relations between Norway, Sweden and Denmark.

Consignments of gold, which had previously been very frequent between the three countries, considerably decreased.

It should also be noted that the three banks mutually entrust to each other the cashing of bills of exchange, the amounts of which are placed to the credit of their reciprocal current accounts.

The Convention concluded between the three Central Banks of the Northern Kingdoms proves that Banks of Issue may render great services to commerce by facilitating international payments, without in any way prejudicing their individual autonomy.

Further, the Governments themselves have created an international system of money orders, transfers and clearing operations, and here we allude to the Conventions concluded between the postal administrations. An examination of these Conventions furnishes the best proof that an agreement is possible between Banks of Issue on the subject of transfers. It should be pointed out that the postal administrations have shown a progressive and enterprising spirit, because the arrangements concluded between the countries adhering to the Universal Postal Union have always given proof of a happy combination of co-operation between the members of the Union and respect for the complete autonomy of each State.

International money orders were arranged by the Paris Postal Convention of June, 1878, in accordance with the revised arrangement of Madrid on November 30th, 1920. The amount of these orders must be paid in by the sender and paid out to the receiver in specie; but each administration has the power either to receive payment or to pay in any paper money which is legal tender in its own country, account being taken, if necessary, of differences in the rates of exchange.

Each administration has the power to fix the maximum amount for the orders issued by it, on condition that this maximum does not exceed 1,000 gold francs.

Subject to any arrangement to the contrary, the maximum amount for money orders payable in any one country is the same as that adopted by that country for issue.

When one and the same sender issues on the same day and in the same place, to one and the same receiver, several money orders, the total amount of which exceeds the maximum adopted by the country of destination, the receiving office is authorised to pay the orders in instalments, so that the sum paid to the receiver on any one day does not exceed this maximum.

Subject to any arrangement to the contrary between the administrations concerned, the amount of each money order is expressed in the currency of the country in which payment is to take place. For this purpose the administrative authority of the country of origin itself determines, if necessary, the rate of conversion of its own currency into the currency of the country of destination.

The administrative authority of a country of origin also determines, if necessary, the rate to be paid by the sender when this country and the country of destination have the same monetary system.

This system of international payments is very conveniently supplemented by a central accounts and liquidation office with headquarters at Berne. This is really an International Clearing House, and we think it would be well to give certain details as to its working.

The administrations belonging to the Universal Postal Union have to draw up, at periods determined by common agreement, reciprocal accounts relating to the various branches of postal traffic (mail in transit, packages of declared value, postal parcels, telegrams, newspapers, subscriptions, postal orders).

These balances include:

(a) The calculation of assets and liabilities based on special accounts and vouchers.

(b) The transfer of the sums arrived at by this calculation to a general account, and the ascertainment by the means of the net amount (balance) for which each administration is indebted to the others.

Until 1892 the liquidation of the balance by the debtor office to the creditor office was effected by means of a draft or consignment in specie. This proceeding, which involved the creation of a large number of special accounts, was extremely burdensome and gave rise to numerous difficulties. The administrations concerned incurred considerable expenses by the purchase and sale of the drafts used in the liquidation of the various balances. The establishment of an International Clearing House would necessarily lead to a great simplification of the above-mentioned method of accounting. The question was discussed at the Vienna Postal Congress in 1891 and, on July 1st, 1892, a Central Accounts and Liquidation Office was established at Berne and attached to the International Office of the Universal Postal Union.

The International Office at Berne undertakes the balancing and liquidating of accounts of every kind relating to the international postal and telegraph services between the administrations of the countries of the Union.

After having worked out and adopted their accounts, the administrations send to each other an acknowledgment of their liabilities, expressed in francs and centimes, stating the matter and the period covered and the balance arrived at.

Each administration sends monthly to the International Office a table showing its assets under the heading of "Special Accounts", together with the total of the amounts due to it from each of the administrations, members of the Union; every credit appearing in this table must be authenticated by an acknowledgement from the debtor office.

The International Office ascertains, by comparing the acknowledgements, whether the tables are correct, and the liabilities of each administration are carried forward into a summarized account. Then the International Office reduces the tables and summarized accounts to one general balance-sheet showing:

- (a) the total liabilities and assets of each administration;
- (b) the debit or credit balances of each administration, representing the difference between the total debit and the total credit;
- (c) the sums to be paid by some of the members of the Union to a particular administration; or, inversely, the sums to be paid by the latter to the others.

The totals of the two classes of balances under (a) and (b) must necessarily be equal.

When the total amount of the assets and liabilities of each administration is ascertained, the International Office decides what payments are to be made—that is to say, it states to which administrations payments must be made by the debtor administration.

As far as possible it ensures that each administration only has to make one or two separate payments in order to square its accounts.

It should be noted, however, that any administration to which another administration is habitually indebted to an amount exceeding 50,000 francs has a right to claim payments on account. These payments on account are entered by both the creditor and debtor administrations at the foot of the tables sent to the International Office.

Such are, in brief, the provisions regulating the clearing of postal accounts.

The preliminary draft of the plan summarised the advantages guaranteed by the new organisation as follows:

1. "Supposing that there are 11 associated administrations and that a system of money orders is in operation between them, there will be, under the present accounting methods, 110 monthly accounts and 55 general clearing accounts regarding money orders alone. The adoption of the proposed procedure would have the immediate effect of abolishing these latter accounts.

2. "The liquidation of the 55 accounts in question at present calls for the same number of special drafts. The new plan would reduce this number to about 10; this reduction would involve a considerable reduction of expenditure under the heading of 'Purchase and Sale of Drafts.' Ten will also be sufficient when the general account to be settled between the various offices includes services other than money orders.

3. "As the new procedure provides generally for the use of negotiable drafts in the great commercial centres, the difficulties, supplementary expenses, etc., resulting from the acquisition of drafts for a smaller amount or payable in towns of less importance will be obviated."

A real step in the direction of a system of international postal transfers has recently been taken in the agreement concluded between twenty-six countries at Madrid on November 30th, 1920. The essential provisions of this agreement are as follows:

1. Any person having a postal current account in one of the countries which is a party to this agreement may order money to be transferred from his account to a postal current account kept in another of these countries.

2. Each administration is authorised to fix the maximum amount of the transfers which the holder of an account may order either in a single day or during a specified period.

3. Each administration is free to comply with all the regulations imposed by the public law of its own country, particularly as regards the export of capital.

4. The administration in any of the contracting countries is authorised to suspend, either wholly or partly, the transfer system, when exceptional circumstances warrant such a procedure.

5. Each administration shall itself fix the rate of conversion of its currency into the currency of the receiving country for all transfers ordered by holders of accounts.

There can be no doubt that the introduction of a system of international postal transfers will prove advantageous to the business world.

As regards financial policy, the international transfer system will be productive of good results. Coin and banknotes which are at present in circulation in the various countries will thereby become available for other purposes. The transfers do not involve any handling of specie, since they are effected by entries in the accounts. A double transaction involving the use of specie — the paying-in and the paying-out — is thus dispensed with.

The international postal transfer system is certain to develop greatly, in view of the increasing number of persons with postal current accounts in countries where the postal cheque system has been established.

On December 31st, 1921, the number of accounts which had been opened was as follows:

Germany	759,830	Serb-Croat-Slovene State	6,923
Danzig.	3,895	Luxemburg	2,240
Austria	177,465	Netherlands	49,330
Belgium	65,514	Switzerland	42,740
Denmark.	3,538	Czecho-Slovakia	63,739
France	112,000	Hungary	40,475
Japan	180,683		

The system of transfer is operated, on the one hand, by the Central Bank, and, on the other, by the Post Office and the great private banks with their numerous agencies. The Central Bank can only have a limited number of branches, and these are opened only in important areas. The Post Office, thanks to its thousands of agencies and offices, is in a certain sense the natural extension of the bank, for the more agencies there are, the more widely does the transfer system extend its ramifications. Transfer operations are thus carried on by two organisations which supplement each other and between which the establishment of direct relations was a logical development.

Thus, in principle, any person in possession of a postal cheque account may transfer any portion of his deposit to any transfer account in the Central Bank. Conversely, any person who has a transfer account in the Central Bank may transfer any sum to any postal cheque account, thus obviating a direct payment at the Post Office, with the consequent charges. This arrangement undoubtedly offers substantial advantages to persons with postal cheque accounts and those with transfer accounts at the Central Bank.

In Banks of Issue transfer operations are rightly regarded as among their most important duties. Hitherto transfer or clearing operations by Banks of Issue have been confined to the territory of the State which granted them the right to issue notes.

Several years ago the Universal Postal Union instituted international postal orders or letters of credit. We have just given an account of a new international postal transfer organisation, which is likely to prove of great importance when the postal cheque system attains its full development. Why, it may be asked, should direct relations not be established between the Banks of Issue for the purpose of enabling transfers to be made?

Most Banks of Issue at present possess bills on foreign countries in their portfolios; some have current accounts in foreign banks. Seeing that the holding of

funds abroad is now regarded as normal and legal, there would be nothing to prevent a part of such funds being placed on current account in a foreign Bank of Issue. Each bank would, moreover, be absolutely free to determine, at its convenience, the maximum amount of such account, and any creditor bank would have the right to demand payment at any time of the sums which might be due to it.

As Banks of Issue, on principle, pay no interest on deposits kept on current account, it will always be possible to transfer the balance or part of the balance to current accounts opened in foreign private banks which pay interest. This practice is adopted by private persons who at present have money on current account in Banks of Issue.

Banks of Issue might also authorise each other to receive payment of bills of exchange which they hold on foreign countries and issue international letters of credit or money orders at the request of the public.

The systems of transfer operations between holders of current accounts in the Banks of Issue may be supplemented by an International Accounts Office, which, after the manner of the Berne Postal Clearing Office, would set off, by means of clearing operations, the debit and credit sides of the accounts of each bank which was a party to the arrangement, leaving only the balances for final adjustment.

The clearing organisation acting for the twelve reserve banks in the United States of America and employing the "*Gold Settlement Clearing Fund*" established at Washington, might also, to a certain extent, serve as a suitable model in drawing up the agreement to be concluded between the Central Banks.

Some will assert that the foregoing constitutes a very modest reform. They dream of vast schemes, of monetary peace, and thus recall all the hopes and illusions which came into prominence about 1865 when many persons believed that they could succeed in establishing a universal currency or a universal bank.

At that date metallic money was of predominant importance, but since then an economic development of deep significance has taken place. It was brought about by the extended use of improved methods of payment — by an advance from cash to the banknote, from the banknote to the cheque, and, by means of the cheque, to transfer and clearing operations.

We must not be understood to imply that the importance of precious metal has diminished; on the contrary, indeed, it is more than ever the basis of all these numerous substitutes which take the place of coin; it is only the actual circulation of precious metal which has fallen off. As the circulation of paper-money has increased and the use of exchange and credit instruments, such as cheques, drafts and clearing operations, becomes more widespread, standard money is used to an ever-decreasing extent in business transactions. Gold provides the security for the subsidiary metallic currency and the whole of the note issues, and it performs this office by being accumulated in ever-increasing quantities in the vaults of the Central Banks of Issue.

Thus, in the majority of countries, the most important duties of Bank of Issue are related to currency, for the issues of banknotes are not augmented merely to meet the increased requirements of credit, but also to take the place of, and represent, specie which has largely passed into the reserves in the banks. The public rightly finds that the note, cheque and draft are more convenient in use.

The value of this mass of paper-money is mainly dependent upon its being convertible into coin; experience, however, shows that this convertibility is by no means constant in all countries, and may in many circumstances be considered as highly problematical.

The securities for convertibility are of two kinds:

1. The coin and bullion in the vaults of the issuing institutions.
2. The credits which form the remainder of the assets. When the credits are commercial and liquid, notes can be reimbursed whenever they are presented. This, however, is not always the case. We must never lose sight of the position of Banks of Issue in their relations with their Governments, — *i. e.*, the amount of the advances which the banks have made to them in one form or another.

When a Bank of Issue merely lends the Government its capital, there is no occasion for anxiety, because the capital of a Bank of Issue is regarded as nothing more than a guarantee fund. But when the bank lends the State more than its capital — *i. e.*, when it lends it either a part of the private deposits which it receives and which may be withdrawn from it at any time, or sums which have accrued to it as a result of the excess of its notes in circulation over and above its metallic reserve — the danger becomes very great, because the deposits or the notes issued are no longer covered.

The financial history of the nineteenth century and of the 1914-1918 war shows that Governments have frequently had recourse to the credit of their Bank of Issue, and have forced it to increase its note circulation. The banks agree to create paper in this way which is not backed by coin or commercial bills only on condition that they are freed from the obligation of repaying in cash; the consequence, often inevitable, of advances to the Treasury is therefore the establishment of an inconvertible currency.

It may therefore be stated as a general principle that the monetary position of a country is dependent upon a real balance in its budget and the satisfactory working of its paper-money system.

Any excess of floating debt in the form of Treasury bonds, discounted by the Banks of Issue, may itself suffice to disturb the money market.

Advances made to States by Banks of Issue can be justified by the imperative needs of public safety. However, this is not always the case. In times of crisis or on the pretext of difficulties, Governments continue to use and abuse these facilities; the world to-day, unfortunately, offers only too many illustrations of this practice.

Excessive issues of paper money immediately affect the rates of exchange. No limit can be fixed for the fluctuations in the exchange between a country with metallic money and a country with inconvertible currency.

If the trade balance becomes unfavourable, as is usually the case, gold is required to pay the foreign creditor. No gold is supplied by the Bank of Issue; it is taken from the currency, and a premium on gold is inevitable.

A paper-money system has always been regarded as inconsistent with the very principle of a monetary convention; yet to prevent this state of affairs is easier said than done, because circumstances which it is impossible to control may compel Governments to adopt such a system.

M. Louis Renault, a French jurist, who is certainly qualified to speak on matters of international law, has brought out very clearly the vulnerable side of conventions dealing with the monetary system :

"By a convention of any kind," he writes, "freedom of action is restricted, since an obligation is assumed to observe certain rules, and since, so long as the convention lasts, it is only possible to be released by the consent of the other contracting parties. For that reason, only temporary conventions or conventions which may be denounced should be concluded. For that reason also each State must, even during the period for which the Convention is in force, retain full freedom of action on all really essential matters. These are the grounds on which serious objections may be brought against any monetary union. The monetary system is of such importance in the economic life of a nation, and it may require the adoption of measures so essential to the very security of the country, that it is dangerous to renounce freedom in this matter. The country runs the risk of suffering heavy losses or failing to fulfil its obligations, which is equally regrettable."

Monetary unions cannot really be compared with other unions, such as the Telegraphic Union and the Postal Union. The Telegraphic Union, which was founded at practically the same time as the Latin Union, dates from May 17th, 1865; at present it extends all over the world, to the general satisfaction of all concerned. This result is due to the fact that it is concerned with administrative objects and that the modifications which require to be made in administrative services can be quite easily effected without the necessity for interfering with principles of legislation.

The right of determining the monetary system constitutes one of the essential attributes of sovereignty, and, if we exclude the case of small States which may occupy an exceptional position, it is dangerous for a country to renounce any part of this right and to bind itself in this connection to a foreign Power. Experience shows that it is the most prudent country which in these matters suffers from the failings of others, while, when each country preserves its freedom, each must support the burden of its own errors and its own mistakes.

Bamberger, who has always shown remarkable insight into currency questions, wrote: "Money, in the international sense, cannot be regarded otherwise than as of correct weight and of full value. It follows, therefore, that to enter into a monetary convention with a State is tantamount to imposing upon it an obligation never to undertake a war, nor to undergo a revolution or an internal economic crisis — a promise which is equally foolish on the part of both of the contracting parties and consequently doubly foolish in the case of reciprocal obligations."

There is doubtless something very alluring to certain minds and flattering to the imagination in this sort of fraternal union of nations in the monetary sphere. But theory is not sufficient to bring about such a union. If we go to the root of the matter, and the idea is compared with actual facts, numerous objections are discovered, and nothing can compensate for the serious dangers which result from

agreements between independent Governments on a matter so closely connected with their respective rights of self-government.

The history of monetary unions which were concluded during the last century serves to confirm these views.

The monetary convention entered into between the States of the German Zollverein in 1837 and 1838 may be credited with introducing a certain measure of order into the anarchical monetary conditions which prevailed in many small States beyond the Rhine; but it must not be forgotten that these States formed a political federation and that they had reciprocally renounced certain attributes of sovereignty — a renunciation to which independent States might not submit.

The Austro-German monetary union which was concluded in 1857 was a deplorable failure.

As regards the Latin Union, founded in 1865, it has experienced disappointments of every kind, and the number of conferences and additional acts itself bears witness to all the difficulties involved.

With these facts before us, we are of opinion that, under present conditions, the monetary system must be national and that political unity must be the precursor of a common monetary system.

For that reason many schemes which have been conceived and investigated by notable thinkers can only be regarded as capable of realisation in the more or less distant future, and their fulfilment must be regarded rather as the crowning economic achievement of a new international political situation, which it is the special task of the League of Nations to create in the course of time.

However, while respecting the full autonomy of each State, I am convinced of the value of periodic conferences, attended by directors of Banks of Issue, for the purpose of considering in common the discount policy, the stabilisation of the value of gold and the establishment of an international system of transfers supplemented by a clearing office.

At present the intercourse between Central Banks is limited as a rule to informal friendly relations. Something more is required, and I feel convinced that discussions between directors of Central Banks of Issue might lead to the valuable result of introducing a certain measure of order into the internal monetary policy of many States.

The main difficulty arises from the fact that Banks of Issue are too often merely a political tool in the hands of Governments who themselves are the sport of the political parties on which they depend.

Ministers of Finance would be in a much stronger position to resist the demands for expenditure made by their colleagues if they were expressly forbidden to resort to the dangerous expedient of discounting Treasury bonds in the Banks of Issue. When the exchequer is empty and it is no longer possible to obtain money by the artificial, dangerous and speedily fatal device of the printing press, then wiser councils frequently begin to prevail. Happy the countries where the directors of Banks of Issue have sufficient independence to say "No" to the demands of Government policy.

It is necessary to safeguard Governments against their own weakness. If in the future the provisions indispensable for the maintenance of a sound paper currency should be settled by an international agreement, internal monetary legislation would become more stable and conform more closely to true monetary principles, because it would be placed under the protection and guarantee of an international convention.

In this connection the consistent co-operation of Banks of Issue would be of great value in investigating the best methods of returning to normal conditions.

Certain countries will be able, by economy and labour, to return by degrees to the former gold parity.

Other countries, where the evil is already too serious, will be unable to escape bankruptcy by having recourse to the devaluation of their money through the establishment of a new gold parity.

All the various cases require to be investigated in the light of economic principles and special circumstances.

International trade is fatally prejudiced by the instability of the exchanges, which inevitably renders any buying or selling transaction in foreign countries a speculative operation.

The Banks of Issue which, before the war, were responsible for the preservation of the monetary standard and the maintenance of the exchanges within strictly defined limits, are in the best position to determine the basis of the monetary reconstruction of Europe.

A. E. JANSSEN.

April 1922.

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